S. HRG. 100-743

THE FAIR ACCESS TO CHECK CASHING ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON CONSUMER AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

S. 2110

TO PROVIDE ACCESS TO CHECK CASHING SERVICES

TO REVIEW THE ISSUE OF CASHING GOVERNMENT CHECKS BY BANKS FOR NONCUSTOMERS

MAY 18, 1988

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE

87-470 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S241-33

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, *Chairman*

ALAN CRANSTON, California	JAKE GARN, Utah
DONALD W. RIEGLE, JR., Michigan	JOHN HEINZ, Pennsylvania
PAUL S. SARBANES, Maryland	WILLIAM L. ARMSTRONG, Colorado
CHRISTOPHER J. DODD, Connecticut	ALFONSE M. D'AMATO, New York
ALAN J. DIXON, Illinois	CHIC HECHT, Nevada
JIM SASSER, Tennessee	PHIL GRAMM, Texas
TERRY SANFORD, North Carolina	CHRISTOPHER S. BOND, Missouri
RICHARD SHELBY, Alabama	JOHN H. CHAFEE, Rhode Island
BOB GRAHAM, Florida	DAVID K. KARNES, Nebraska
TIMOTHY E. WIRTH, Colorado	

KENNETH A. MCLEAN, *Staff Director*
LAMAR SMITH, *Republican Staff Director*
PATRICK A. MULLOY, *General Counsel*
BARTLETT C. NAYLOR, *Investigator*

SUBCOMMITTEE ON CONSUMER AFFAIRS

CHRISTOPHER J. DODD, Connecticut, *Chairman*

WILLIAM PROXMIRE, Wisconsin	PHIL GRAMM, Texas
BOB GRAHAM, Florida	JOHN H. CHAFEE, Rhode Island
TIMOTHY E. WIRTH, Colorado	DAVID K. KARNES, Nebraska

PETER KINZLER, *Staff Director*
DAVID L. MOSES, *Professional Staff Director*

CONTENTS

WEDNESDAY, MAY 18, 1988

	Page
Opening statement of Senator Proxmire	1
Copy of proposed bill, S. 2110	3
Opening statement of Senator Garn	13
Opening statement of Senator D'Amato	16
Opening remarks of Senator Chafee	32

WITNESSES

Fernand J. St Germain, U.S. House of Representatives, from the State of Rhode Island, Chairman, House Committee on Banking, Finance and Urban Affairs	18
High fees charged for cashing checks	19
Banks oppose check cashing legislation	19
Prepared statement	21
Rhode Island solved its problem	25
Howard M. Metzenbaum, U.S. Senate, from the State of Ohio	26
Banks unwilling to cash Government checks	27
Purchase and ID card and checks are cashed free	28
Prepared statement	29
Charles E. Schumer, U.S. House of Representatives, from the State of New York	33
Prepared statement	35
Richard L. Fogel, Assistant Comptroller General, U.S. General Accounting Office, accompanied by Craig Simmons, and Alison Kern	39
Nationwide survey of fees charged by banks	40
Cost for cashing checks	42
Prepared statement	44
Results of GAO's survey	45
Check cashing experience at depository institutions	46
Who is having problems?	47
Inconvenience	49
Cost	49
Governmental responses	50
Observations on proposed approaches to check cashing problems	51
Panel discussion:	
Possible increase in fraud	53
Check cashers don't worry about fraud	56
Thomas D. Ritter, Second District, House of Representatives, Connecticut	57
Prepared statement	59
John W. Gleeson, Director, Division of Citizens Complaints, New Jersey Department of the Public Advocate, Trenton, NJ	61
Prepared statement	62
Margaret Willis, President, Ohio State Consumers Education Association	65
Banks discriminating against clients	65
Facts and evidence to back up charges	66
Prepared statement	69
Edward B. Brandon, President and CEO, National City Corporation, Cleveland, OH	71
Problems with proposed legislation	72
Prepared statement	74
Problems addressed by the NCC proposal	74
Features of the NCC proposal	75

Page

Edward B. Brandon, President and CEO, National City Corporation, Cleveland, OH—Continued
Prepared statement—Continued
Compliance ... 76
Advantages and disadvantages of the NCC proposal ... 77
Alan Heuer, Sector Executive, Marine Midland Bank, N.A., New York; representing the Consumer Bankers Association ... 78
Proposed bill would create operational problems ... 78
Fraudulent or stolen Government checks are big business ... 79
Prepared statement ... 81
Introduction ... 81
Scope of problem ... 81
Concerns regarding current draft of S. 2110 ... 82
Operational problems ... 82
Problems with identification and registration system ... 83
Likelihood of fraud and other credit losses ... 83
Conclusions ... 84
Statement from the National Bankers Association dated May 12, 1988, from John P. Kelly, Jr., president ... 85
August Zinsser III, Executive Vice President, First American Bank, Washington, DC; representing the American Bankers Association ... 86
Legislative solution is premature ... 86
Prepared statement ... 88
Background and summary analysis ... 88
The legislation would increase bank exposure to fraudulent schemes and curent significant losses would rise dramatically ... 88
The provision requiring banks to issue identification cards to noncustomers is inappropriate ... 89
Banks should not be forced to absorb the costs of Government check cashing ... 90
Absorbing the costs of Government check cashing would threaten the viability of thousands of unprofitable branches ... 90
Direct deposit, electronic access, and other emerging efforts offer reasonable alternatives to mandated Government check cashing ... 91
Conclusion ... 92
Peggy Miller, representing the Consumer Federation of America and the AARP ... 93
Refusal to cash check with or without bank account ... 93
Prepared statement ... 96
CFA's national survey of check cashing outlets ... 96
The New Jersey public advocate survey, "Who's Checking" ... 97
"Check cashing in California, a survey of commercial check cashing business" ... 97
Statistics documenting check cashing outlets often are charging exhorbitant fees ... 97
W. K. McWhorter, the Buckhead Group, Inc., Roswell, GA ... 99
Prepared statement ... 100
Panel discussion:
Problems are getting worse ... 103
Why the American public gets angry with bankers ... 103
This legislation is going to move ... 104

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Electronic Funds Transfer Association, statement submitted for the record from Dale L. Reistad ... 106

THE FAIR ACCESS TO CHECK CASHING ACT

WEDNESDAY, MAY 18, 1988

U.S. SENATE,
SUBCOMMITTEE ON CONSUMER AFFAIRS,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD-538, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Wirth, Garn, D'Amato, and Chafee.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. The subcommittee will come to order.

Today the Consumer Affairs Subcommittee is conducting a hearing on the important issue of the cashing of Government checks by depository institutions for nondepositors.

Senator Dodd, the chairman of the subcommittee, has been called away for business in his home State of Connecticut, so I will chair the hearing.

Today's testimony reveals that a significant segment of our society is not taking part in the traditional banking system. The 1984 census data found that 18 percent of all families do not have a bank account and this number appears to be rising. The census data reveals that 82 percent of families without bank accounts have incomes of less than $20,000 and other data shows that the lower the family income, the greater the likelihood that the family will not have a bank account. At the poorest level, those families on general assistance, 77 percent do not have bank accounts.

There's a definite correlation between the lack of a bank account and the specific issue before us today—the cashing of government checks by depository institutions for nondepositors.

While the surveys differ, it appears as if a large number of banks will not cash government checks for nondepositors at any price. This leaves those people to the not always tender mercies of private check cashers as well as local stores. The result can be inconvenience, it can be a significant reduction of value of the Government check because of the bite taken by whoever cashes the check or it can be lost as the proceeds by the person cashing the check is robbed on the way home from cashing it.

Yet not everyone who doesn't use a bank to cash a Government check wants to use one. Some people find them inconvenient or want to cash their checks at a place that also issues food stamps. I hope in the first instance that the hearing will help us define more precisely who is having trouble cashing government checks. We

also have witnesses who can tell us about some of the State and county experiments with different solutions.

Further, we will want to examine different possible solutions, including that contained in Senator Metzenbaum's bill, S. 2110, which would require depository institutions to cash free of charge any check issued by any government if the person presenting the check is the person to whom it was issued and the person is registered with the depository institution.

Now this solution would appear to be attractive to those that cannot now cash checks at banks, but is it the best solution for them and for the depository institution? How many more people would it bring in to the system? What about the banks' concern about possible fraud and greater operational costs? What about the banks' concern about being paid for the cost of providing such services? Will a system of direct deposit be a better solution?

These are just a few of the many questions I hope this hearing will shed light on. We have excellent witnesses, especially the esteemed Chairman of the House Banking Committee, who is before us today and is an expert in this area and has been deeply concerned with this problem for a number of years. Hopefully, we can work together to define the problem as precisely as possible and then draft a reasonable solution that will enable those who want to use the banking system to cash Government checks to be able to do so in a way they can afford and in a way that is also practicable for the banks.

[A copy of the proposed bill S. 2110 follows:]

II

100TH CONGRESS
2D SESSION

S. 2110

To provide access to check cashing services.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 29 (legislative day, FEBRUARY 15), 1988

Mr. METZENBAUM introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To provide access to check cashing services.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Fair Access to Check Cashing Act".

SEC. 2. DEFINITIONS.

For the purpose of this Act—

(1) the term "consumer" means a natural person;

(2) the term "check" means any check, share draft, negotiable order of withdrawal, or other similar means of making payment or transfers to third parties or other;

(3) the term "depository institution" has the meaning given such term in clauses (i), (ii), (iii), (iv), (v), and (vi) of section 19(b)(1)(A) of the Federal Reserve Act;

(4) the term "Board" means the Board of Governors of the Federal Reserve System; and

(5) the term "office" includes the home office of a depository institution and any office approved as a branch of the depository institution by its Federal or State supervisory agency, but excludes free-standing automated teller machines and other electronic terminals.

SEC. 3. CHECK CASHING.

(a) CHECK CASHING REQUIRED.—A depository institution which, in the ordinary course of business, cashes checks for customers, shall cash any check issued by the United States Government, any State, any unit of local government, or any agency thereof, if the consumer presenting the check—

(1) is the individual to whom the check has been issued; and

(2) is registered with the depository institution pursuant to subsection (b).

(b) REGISTRATION.—The Board shall promulgate regulations governing registration under this section. The regulations shall require at least the following:

(1) Every such depository institution shall provide for registration in all of its offices.

(2) Registration shall be by means of an application containing the application date, and the name, address, date of birth, social security number, and handwritten signature of the applicant as well as any other information the Board may deem necessary, or by any other method the Board may approve.

(3) Every depository institution shall have the authority to verify the information required to be submitted by the applicant.

(4) Verification shall be completed within 30 days of receipt of the application.

(5) Upon verification, the applicant shall be considered registered, and shall be provided by the depository institution with an identification card in such form as the Board may approve.

(6) The depository institution may restrict the cashing of any check presented in accordance with subsection (a) only to the office that the application was submitted to, except that all offices of the depository institution must cash any check presented in accord-

ance with subsection (a) if the person presenting the check also presents a reliable piece of identification which includes a photograph.

(7)(A) A depository institution may assess a charge for issuing an identification card, in an amount not in excess of the actual cost incurred in processing the application and issuing the card, as determined to be fair and reasonable by the Board.

(B) No charge may be assessed for cashing checks pursuant to subsection (a).

SEC. 4. POSTING OF NOTICES.

Every depository institution shall post a conspicuous notice in the appropriate area of each location where deposits are accepted that informs consumers that check cashing services pursuant to section 3 are available. The notice shall clearly explain the material features and limitations of check cashing services so that consumers can reasonably be expected to understand the terms offered.

SEC. 5. REGULATIONS.

The Board shall prescribe regulations necessary to carry out the provisions of this Act no later than 180 days after enactment of this Act. In promulgating such rules and regulations, the Board may obtain upon request the views of any other Federal agency that exercises regulatory or supervisory

functions with respect to depository institutions subject to this Act.

SEC. 6. ADMINISTRATIVE ENFORCEMENT.

(a) ENFORCEMENT BY AGENCIES.—Compliance with the requirements imposed under this Act shall be enforced under—

(1) section 8 of the Federal Deposit Insurance Act, in the case of—

(A) national banks, by the Comptroller of the Currency;

(B) member banks of the Federal Reserve System (other than national banks) by the Board; and

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation;

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions; and

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union or insured credit union.

(b) EFFECT OF OTHER LAW.—(1) For purposes of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this Act shall be deemed to be a violation of a requirement imposed under that Act.

(2) In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this Act, any other authority conferred on it by law.

(c) SAVINGS PROVISION.—The authority of the Board to issue regulations under this Act does not impair the authority of any other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this Act.

SEC. 7. CIVIL LIABILITY.

(a) IN GENERAL.—Any depository institution that fails to comply with any requirement imposed under this Act or any regulation adopted pursuant to this Act with respect to

any person shall be liable to such person in an amount equal to the sum of—

(1) any actual damage sustained by such person as a result of the failure; and

(2)(A) in the case of an individual action, such additional amount as the court may allow, except that liability under this subparagraph shall not be less than $100 nor greater than $1,000; or

(B) in the case of a class action, such additional amount as the court may allow, except that—

(i) as to each member of the class, no minimum recovery shall be applicable; and

(ii) the total recovery under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same depository institution shall not be more than the lesser of $500,000 or 1 percent of the net worth of the depository institution.

(b) AMOUNT OF DAMAGES.—In determining the amount of award in any class action, the court shall consider, among other relevant factors—

(1) the amount of any actual damages awarded;

(2) the frequency and persistence of failures of compliance;

(3) the resources of the depository institution;

(4) the number of persons adversely affected; and

(5) the extent to which the failure to comply was intentional.

(c) OTHER RELIEF.—Upon application by an aggrieved party, the appropriate United States district court or any other court of competent jurisdiction may grant such equitable and declaratory relief as is necessary to enforce the requirements imposed under this Act.

(d) COSTS AND FEES.—In the case of any successful action under subsection (a) or (c), the costs of the action, together with a reasonable attorney's fee as determined by the court, shall be added to any damages awarded by the court under such section.

(e) GOOD FAITH RELIANCE.—No provision of this Act imposing liability shall apply to any act done or omitted in good faith in conformity with any official rule, regulation, or interpretation thereof by the Board or in conformity with any interpretation or approval by an official or employee of the Federal Reserve System duly authorized by the Board to issue such interpretations or approvals under such procedures as the Board may prescribe therefor, notwithstanding that after such act or omission has occurred, such rule, regulation, interpretation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

(f) JURISDICTION.—Any action under this section may be brought in the appropriate United States district court without regard to the amount in controversy, or in any other court of competent jurisdiction. No such action shall be brought later than one year after the date of the occurrence of the violation.

SEC. 8. GENERAL EFFECTIVE DATE.

Except as provided in section 5, the provisions of this Act shall be effective 270 days after the date of enactment of this Act.

Senator PROXMIRE. Senator Garn.

Senator GARN. Thank you, Mr. Chairman. Not being a member of this subcommittee, I came primarily to hear the distinguished Chairman of the House Banking Committee and so I simply would ask unanimous consent that my statement be placed in the record.

[Committee insert of Senator Garn's opening statement:]

OPENING STATEMENT OF SENATOR GARN

MAY 18, 1988

MR. CHAIRMAN, I AM PLEASED THAT THE SUBCOMMITTEE IS HOLDING THIS HEARING ON SENATOR METZENBAUM'S BILL, S.2110, THE "FAIR ACCESS TO CHECK CASHING ACT."

I WELCOME ALL THE WITNESSES WHO HAVE COME TO TESTIFY BEFORE US TODAY. I LOOK FORWARD TO HEARING FROM OUR COLLEAGUES, AND I AM INTERESTED TO HEAR THE INTERIM REPORT FROM THE GENERAL ACCOUNTING OFFICE ON THEIR STUDY OF THIS ISSUE WHICH WAS MANDATED BY THE COMPETITIVE EQUALITY BANKING ACT.

HOWEVER, I AM VERY CURIOUS TO HEAR WHAT THE CONSUMER REPRESENTATIVES, BANKING PANEL AND FRAUD WITNESSES HAVE TO SAY. AFTER ALL, THEY ARE HERE TO SPEAK FOR THOSE WHO MIGHT BE AFFECTED BY THE ISSUE, AS WELL AS THOSE WHO WOULD BEAR THE BURDEN OF IMPLEMENTING THIS PROPOSAL.

THERE ARE STATISTICS AND CLAIMS MADE ALL ACROSS THE BOARD AS TO THE EXTENT OF THE DIFFICULTIES THAT ARE FACED BY PEOPLE RECEIVING FEDERAL, STATE AND LOCAL GOVERNMENT CHECKS, AND THEIR ABILITY TO CASH THOSE CHECKS. HOPEFULLY, THIS HEARING WILL HELP IN CLARIFYING THE NATURE AND SIZE OF THIS PROBLEM.

IF IT IS ESTABLISHED THAT THIS IS A PROBLEM REQUIRING THE INTERVENTION OF THE GOVERNMENT, WE SHOULD ALSO CONSIDER WHETHER IT IS THE FEDERAL OR STATE GOVERNMENT THAT IS IN THE BEST POSITION TO TAKE ACTION. IT WOULD HARDLY BE APPROPRIATE TO TAKE NATIONWIDE ACTION FOR A PROBLEM THAT IS LOCAL IN NATURE.

IF FEDERAL LEGISLATION IS NECESSARY, IT IS IMPORTANT THAT ALL OF OUR OPTIONS BE CONSIDERED, SO THAT THE SOLUTION CAN BE TAILORED TO THE PROBLEM.

FOR EXAMPLE, IF THE PROBLEM IS RELATED SOLELY TO WELFARE AND SOCIAL SECURITY CHECKS, THEN A SOLUTION LIMITED TO THOSE TYPES OF PAYMENTS MIGHT BE THE BETTER APPROACH.

OF COURSE, ANY LEGISLATIVE SOLUTION SHOULD BE FAIR TO ALL PARTIES. NO SINGLE SEGMENT OF OUR FINANCIAL NETWORK SHOULD BE SINGLED OUT TO BEAR THE COSTS OF HELPING THE GOVERNMENT PROVIDE SOCIAL BENEFITS TO ITS CITIZENS. THUS, OPTIONS INCLUDING PROVIDING ALTERNATIVE CHECK CASHING SOURCES, SUCH AS POST OFFICES, SHOULD BE CONSIDERED. ANOTHER APPROACH MIGHT BE TO TRY TO ENCOURAGE VOLUNTARY PARTICIPATION BY PRIVATE SECTOR INSTITUTIONS BY PROVIDING A FAIR REIMBURSEMENT FOR CHECK CASHING SERVICES WHICH WILL COMPENSATE THESE INSTITUTIONS FOR BOTH THEIR TRANSACTION EXPENSES AND RISK OF LOSS THROUGH FRAUD.

WE MUST REMEMBER THAT BANKS AND OTHER DEPOSITORY INSTITUTIONS ARE NOT GOVERNMENTAL ENTITIES. TO THE CONTRARY, THEY ARE PRIVATE SECTOR FIRMS THAT MUST EARN AN ADEQUATE RATE OF RETURN IF THEY ARE TO BE ABLE TO ATTRACT THE CAPITAL THEY MUST HAVE TO OPERATE.

IF PROVIDING A MEANS TO CASHING GOVERNMENT CHECKS BOILS DOWN TO A SERVICE THAT THE GOVERNMENT SHOULD PROVIDE, THEN PERHAPS THE GOVERNMENT SHOULD BEAR PART OF THE COST IN PROVIDING THAT SERVICE. THAT COST MIGHT INCLUDE GUARANTEEING OR CERTIFYING GOVERNMENT CHECKS.

MR. CHAIRMAN, THESE ARE JUST A FEW OF MY THOUGHTS ON THIS ISSUE. I AM LOOKING FORWARD TO THIS HEARING, SO THAT WE CAN BOTH LEARN MORE ABOUT THE PROBLEM, AND EXPLORE ALL OF THE POSSIBLE SOLUTIONS.

Senator PROXMIRE. Senator D'Amato.

Senator D'AMATO. Mr. Chairman, I echo Senator Garn's sentiments. It's good to see the Chairman of the House Banking Committee who's taken his time to come here to testify before our committee and I'd ask, Mr. Chairman, that I be permitted to submit my statement as if read in its entirety.

Senator PROXMIRE. Thank you, Senator D'Amato.

[Committee insert of Senator D'Amato's opening statement:]

STATEMENT OF SENATOR ALFONSE D'AMATO

BEFORE THE SENATE BANKING COMMITTEE

HEARING ON S. 2110, THE FAIR ACCESS TO CHECK CASHING ACT

MAY 18, 1988

MR. CHAIRMAN, I'M DELIGHTED TO SEE HERE THIS MORNING OUR DISTINGUISHED VISITORS FROM THE OTHER SIDE OF THE HILL: THE VERY DISTINGUISHED CHAIRMAN OF THE HOUSE BANKING COMMITTEE, CONGRESSMAN ST. GERMAIN, AND MY GOOD FRIEND AND COLLEAGUE FROM NEW YORK, CHUCK SCHUMER.

I CERTAINLY APPLAUD THEIR, AND YOUR INTERESTS AND EFFORTS IN THIS AREA. YOU KNOW WE HAVE HAD AN INTENSE SEASON IN THIS COMMITTEE, THRASHING OUT A NUMBER OF PIECES OF LEGISLATION ADDRESSING THE FUNDAMENTAL STRUCTURE OF BANKING AND FINANCIAL SERVICES IN THIS COUNTRY. LORD KNOWS WE HAVE HEARD PLENTY FROM THE INTERESTS REPRESENTED BY ALL YOUR GOOD FRIENDS AND MINE IN THE WELL TAILORED SUITS AND FANCY SHOES AS OUR ATTENTION HAS BEEN FOCUSED ON FINANCIAL ACTIVITIES INVOLVING HUGE BANKS, INVESTMENT BANKS,A ND INSURANCE COMPANIES AND BILLIONS AND BILLIONS OF DOLLARS. IT IS IMPORTANT TO REMEMBER, BEFORE WE GET COMPLETELY LOST IN THE RARIFIED ATMOSPHERE OF HIGH FINANCE, THE PEOPLE FOR WHOM MERELY GETTING A CHECK CASHED IS A DIFFICULT AND VITAL FINANCIAL UNDERTAKING. AGAIN, I APPLAUD YOU, MR. CHAIRMAN, OTHER SENATORS INVOLVED IN THIS BILL, AND MY GOOD FRIENDS ON THE PANEL TODAY FOR BEING

CAREFUL NOT TO LOSE SIGHT OF THOSE WHO DON'T DEAL IN THE BIG NUMBERS AND CAN'T HIRE EXPENSIVE LOBBYISTS, BUT TO WHOM ACCESS TO BASIC FINANCIAL SERVICES MAY WELL BE A MATTER OF SURVIVAL.

HAVING SAID THAT, I THINK WE ALL AGREE THAT IT'S IMPORTANT TO DETERMINE EXACTLY WHAT THE PROBLEMS ARE BEFORE WE CAN FASHION THE MOST APPROPRIATE AND EFFECTIVE SOLUTION. THE PRELIMINARY GAO STUDY BEFORE US INDICATES THAT THE DATA IS AS YET PRETTY SKETCHY. FURTHER, THERE ARE SOME NAGGING QUESTIONS ABOUT THE EFFECT OF THIS BILL; ONE THAT CONCERNS ME IS WHETHER THE BILL WOULD PUT OUT OF BUSINESS THOSE PRIVATE CHECK CASHERS WHO SET UP SHOP WHERE DEPOSITORY INSTITUTION BRANCHES TEND NOT TO BE, AND WHETHER THIS WOULDN'T HAVE THE INTENDED EFFECT OF ACTUALLY DECREASING ACCESS TO FINANCIAL SERVICES FOR THE POOR; THERE MAY BE SOME OTHER WAY TO CURB POSSIBLE ABUSES BY SUCH OPERATIONS WITHOUT REDUCING THE AVAILABILITY OF CHECK CASHING.

I EAGERLY LOOK FORWARD TO HEARING THE TESTIMONY OF OUR WITNESSES TODAY ON THIS AND OTHER POINTS.

THANK YOU, MR. CHAIRMAN.

Senator PROXMIRE. Senator Metzenbaum is going to be a witness a little later. We have the Chairman of the House Banking Committee scheduled first and then he will follow.

Well, Chairman St Germain, we're delighted and flattered to have you here. Go ahead and we'd be happy to listen to your words of wisdom.

STATEMENT OF FERNAND J. ST GERMAIN, U.S. HOUSE OF REPRESENTATIVES, FROM THE STATE OF RHODE ISLAND, CHAIRMAN, HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Representative ST GERMAIN. Thank you, Mr. Chairman. No. 1, I'd ask unanimous consent that you place my entire detailed statement in the record.

Senator PROXMIRE. Without objection, it will be printed in full in the record.

Representative ST GERMAIN. Thank you. I certainly want to commend yourself, Chairman Proxmire, and Chairman Dodd for holding these hearings and express my appreciation to Senators Garn and D'Amato for being here this morning and my appreciation to Senator Metzenbaum for taking up the cudgels on this side of the Capitol on an issue that I've been very, very concerned about for many, many years.

Let's face it. These hearings are on a vital part of the consumer agenda that now is pending before the Congress. Senator Metzenbaum and my colleague from the House, Chuck Schumer, who will be testifying here this morning, have labored long and hard for a workable and fair check cashing system. They both deserve great credit.

In efforts dating back to the 1970's, I have pushed the regulators and the banking industry to focus on the critical need to provide basic banking services, including the cashing of government checks. It has been an uphill battle and clearly nothing short of a statutory requirement will get the job done. I guess I say that, gentleman, because of what happened on delayed funds availability. Likewise, the bill was introduced by myself and others year after year. We were told by the Fed in 1978 that they were conducting a study. And finally, 9 years later, they were still studying, so we legislated and I thank the Senate for the job they did in cooperating with the House on delayed funds availability and, as you know, come September the regs go into place and the people will begin to get their money in a timely fashion.

So through the years, the Federal Government has provided depository institutions a variety of cushions against the shocks of the marketplace—massive deposit insurance of $100,000 now, below market loans, Government guarantees, tax benefits, bailouts when they fail and, as a matter of fact, at this point, the regulators are now saying that every depositor is insured for $100,000 or beyond.

Well, now, in the midst of all this largesse for the industry, the customers now say to us, "How about a simple and limited service, a chance to cash our Social Security checks and other checks issued by government entities?"

HIGH FEES CHARGED FOR CASHING CHECKS

More than 8 million families, gentlemen, perhaps 10 to 15 percent of our population do not have relationships with financial institutions. In some areas the estimates range as high as 25 percent. Now these are the people who turn to check cashing firms, to liquor stores, loan sharks, and others who charge substantial fees for converting checks to cash. These fees range from 1 percent to up to 10 percent of the check. In some cases, even as high as 30 percent.

The banking industry itself is to blame for much of this growing population of persons who do not maintain accounts. High fees, minimum balance requirements, fewer branches, the trend toward banking for the upscale or the affluent has pushed customers out of the banking system. The problem is not limited to those who have no accounts. The American Association of Retired Persons, the champion of senior citizens' right to check cashing services, reports it has found situations where customers with longstanding relationships with banks have had difficulty cashing checks when their accounts drop below a particular balance after their retirement, and bankers wonder why they're not the best loved kids on the block.

Admittedly, some check cashing outfits to which these customers must turn are well run, but they must exist on the fees and these fees eat into the meager income of retirees and families who must scrape by on assistance programs. For example, a survey conducted by the Consumers Federation of America indicates that a Social Security recipient could pay as much as $300 per year for check cashing services.

BANKS OPPOSE CHECK CASHING LEGISLATION

The banks' opposition to check cashing legislation would be comic if it did not involve such a basic human need. First, the bankers came in telling us the check cashing would burden them with high costs. Faced with this argument, some of the consumer and senior citizens groups said, "They will support a $2 fee per check cashed." Now, gentlemen, that represents about a $1.50 profit per check even taking into account the inflated cost figures put out by the banks.

The banks then dredged up a new concern—the possibility of increased fraud. The check cashing proposals—those introduced by Senator Metzenbaum, Mr. Schumer and myself—do not increase the number of checks issued or the number of checks ultimately cashed. That will remain a constant. The banks have yet to explain how, under these circumstances, there would be an increase in fraud.

The real truth is that the proposed legislation would, for the first time, set up a rational system for cashing government checks—a system that includes registration and a photo ID. Thus, if anything, the proposals would reduce fraud and provide greater protections for the banks.

The fact is that less than one-half of 1 percent of government checks fall into the fraud basket.

While our friends in the consumer and senior citizen organizations have offered concessions to the banks to gain support, I'm not yet convinced that the industry needs all these sweeteners to provide such a basic service. I'm willing to listen to these compromises, but if in the end the banks plan to just say no, are they talking compromise or are they stonewalling?

Many banks, I am happy to report, do voluntarily cash government checks and do provide basic banking services.

I know that from firsthand experience. This became a major issue in Rhode Island and I am pleased and proud to report that banks in my State do cash government checks. The program is working. So, for those who say it can't be done, that it is too great a burden, I'll be happy to show them that Rhode Island banks can and do handle the problem efficiently.

Now when we enact major banking legislation this year, we must make certain that a person—with the proper ID—can get a government check cashed without paying exorbitant fees. It is a small service. It is a small yet important request from our senior citizens and others who depend on the income from government checks and also cannot afford delays and high fees.

This, gentlemen, is high priority legislation.

[The complete prepared statement of Representative St Germain follows:]

STATEMENT OF FERNAND J. ST GERMAIN, CHAIRMAN
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
CONSUMER AFFAIRS SUBCOMMITTEE

MAY 18, 1988

I want to commend you, Mr. Chairman, for holding these hearings on such a vital part of the consumer agenda now pending before the Congress. This Subcommittee, under your Chairmanship, is again demonstrating its leadership on consumer initiatives.

Senator Metzenbaum, and my colleague from the House, Chuck Schumer, who will be testifying here this morning, have labored long and hard for a workable and fair check cashing system. They both deserve great credit.

In efforts dating back to the 1970's, I have pushed the regulators and the banking industry to focus on the critical need to provide basic banking services including the cashing of Government checks. It has been an uphill battle and clearly nothing short of a statutory requirement will get the job done.

Through the years, the Federal Government has provided depository institutions a variety of cushions against the shocks of the marketplace---massive deposit insurance, below-market loans, Government guarantees, tax benefits, and markets, at least partially, protected.

Today stories of multi-billion dollar bailouts of banking and savings and loan corporations no longer surprise or shock. These bailouts not only benefit individual corporations, but provide stability and public confidence across all segments of the industry---the well and the sick alike.

Deposit insurance, once thought of as a protection for the less sophisticated investor, now stands behind everything that moves in the industry----with regulators issuing edicts for 100 percent across-the-board insurance for creditors and depositors regardless of size or merit.

In the midst of all this largesse for the industry, some citizens have come forth to ask for a simple and limited service---a chance to cash Social Security and other checks issued by governmental entities. Hardly a monumental or difficult assignment for any depository institution.

Yet, the mere mention of "Government check cashing" is enough to send the Washington trade association lobbyists into apocalyptic fits. This knee-jerk "keep those people out of our lobbies" reaction is one of the biggest public relations blunders ever for an industry that has had some prize-winning goofs through the years.

There is a clear and present need for a rational, low-cost means of cashing a check that has been issued by a bonafide governmental entity.

More than eight million families---perhaps 10 to 15 percent of the population---do not have relationships with depository institutions. In some urban areas, the estimates range as high as 25 percent. A recent survey in Atlanta indicates that almost half of the population with incomes of $15,000 and less are without checking accounts.

These are people who must turn to check cashing firms, liquor stores, loan sharks and others who charge substantial fees for converting checks to cash. Fees range from one percent up to 10 percent of the amount of the check. One survey uncovered a situation where a 30 percent charge had been imposed.

The banking industry, itself, is to blame for much of this growing population of persons who do not maintain accounts. High fees, minimum balance requirements, fewer branches---the trend toward banking for the upscale---has pushed customers out of the banking system.

The problem is not limited to those who have no accounts. The American Association of Retired Persons (AARP), which champions the senior citizens' right to check cashing services, reports it has found situations where customers with long-standing relationships with banks have had difficulties cashing checks when account balances drop

after retirement. Banks, in some cases, apparently balk when the amount of the Social Security or pension check is greater than the retiree's existing balances---even when the customer has had a relationship with the institution for some years. And bankers wonder why they're not the best loved kids on the block.

Admittedly, some check cashing outfits to which these customers must turn are well run, but they must exist on fees and those fees eat into the meager income of retirees and families who must scrape by on assistance programs.

A survey conducted by the Consumer Federation of America indicates that a Social Security recipient could pay out more than $300 annually for check cashing services. The fees vary from firm to firm and locality to locality, but none of the fees are cheap if you are required to eke out an existence on Social Security or minimum wages.

The banks' opposition to check cashing legislation would be comic, if it did not involve such a basic human need.

First, the bankers came in telling us that check cashing would burden them with high costs. Faced with this argument, some of the consumer and senior citizens groups said "Fine, we'll support legislation that will let you charge as much as two dollars for every check cashed". That represents well over a $1.50 profit per check

even taking into account the inflated cost figures put out by the banks---cost figures that, incidentally, include a pro-rata share of everything from the bank President's new limousine to the executives' Country Club memberships.

With the consumer groups offering them a profit, the banks' cost complaints fell flat. A little red-faced, they dredged up a new concern---the possibility of increased fraud. This one almost didn't get to the end of the runway.

The check cashing proposals---those introduced by Senator Metzenbaum, Mr. Schumer and myself---do not increase the number of checks issued or the number of checks ultimately cashed somewhere now. The banks have yet to explain how, under these circumstances, there would be an increase in fraud.

The real truth is that the proposed legislation would, for the first time, set up a rational system for cashing Government checks---a system that includes registration and a photo identification. Thus, if anything, the proposals would reduce fraud and provide greater protections for the banks.

The bottom line on all the fraud arguments is the fact that less than one half of one percent of Government checks fall into the fraud basket.

Striking out on their cost and fraud claims, some lobbyists complained that the legislation would require them to set up expensive photo ID equipment---even though the consumer would pay the cost. So, to take care of this argument, consumer and senior citizen groups have proposed that the consumer provide his own ID from his own source---with banks not involved with this aspect. Actually, valid IDs are easy to obtain. For example, all 50 states have Motor Vehicle Departments that provide photo IDs for drivers and non-drivers alike.

While our friends in the consumer and senior citizen organizations have offered concessions to the banks to gain support, I'm not yet convinced that the industry needs all these sweeteners to provide such a basic service. I'm willing to listen to these compromises, but if in the end the banks plan to just say no, are they talking compromise or stonewalling?

Mr. Chairman, I am hopeful that the wiser heads in the industry will overcome the trade associations' desire to score lobbying points, and turn to solving the problem. Many banks, I am happy to report, do voluntarily cash Government checks and do provide basic banking services.

I know that from firsthand experience. This became a major issue in Rhode Island and I am pleased to report that banks in my state do cash Government checks. The program is working. So, for those who say it can't be done, that it is too great a burden, I'll be happy to show them that Rhode Island banks can and do handle the problem efficiently.

When we enact major banking legislation this year, we must make certain that a person---with the proper identification---can get his Government check cashed without paying exorbitant fees. It is a small service. It is a small request from our senior citizens and others who depend on the income from Government checks and also cannot afford delays and high fees.

This should be priority legislation.

Senator PROXMIRE. Thank you very much, Chairman St Germain. Let me compliment you on your usual well documented and articulate statement. Clearly, a congressional leader such as you who can make such a statement will have no trouble getting a comprehensive banking bill through the House this year. [Laughter.]

Representative ST GERMAIN. I would say to Senator Proxmire that we are proceeding very, very nicely but we're trying to work in such a manner as you did. Perhaps we can have shorter closed door sessions, but nonetheless, I have attempted to effectuate and construct a piece of legislation that you will be ecstatic about, my fellow members on my Banking Committee in the House will be ecstatic about, and that the financial industry and consumers as well as insurance and realtors will be overjoyed about. We may well have a parade here in the very near future, a great celebration. And I assure you that there's going to be something in that bill about cashing government checks.

Senator PROXMIRE. Well, ecstasy, here we come. That sounds like a very happy future. [Laughter.]

I'm intrigued by your point that fraud should not increase if the number of checks issued and cashed remains the same. It seems to me the only way bank fraud losses could increase would be if their loss experience is worse than that of the private check cashers which appears to be quite low now. Is that your conclusion?

Representative ST GERMAIN. Mr. Chairman, I'm certain banks are going to say that they're more efficient than the liquor stores and the professional check cashers, and that being the case, how could fraud increase? If they were to come here and say they're not as good as the liquor stores at detecting fraud, then we've got a big problem in this country and maybe that major banking bill should be put on the back shelf.

Senator PROXMIRE. Let me go back to the first question I asked because I didn't follow that up. You say that you don't think that the government check cashing is a problem the private sector can solve on its own. Why is that?

Representative ST GERMAIN. For this reason. Delayed funds availability was a problem that existed for many years that, as I say, the Federal Reserve Board began studying that in 1978 and finally in 1987 we enacted statutory legislation and the regs go into effect in September of this year.

RHODE ISLAND SOLVED ITS PROBLEM

It's a question of desire. Now in Rhode Island they have solved the problem. They have addressed it and they have solved it. Unfortunately, we have to look at more than the State of Rhode Island. The industry itself has just been lackadaisical as far as this problem is concerned and, as I say, it's not new. I've been working on this. I've introduced a bill many times.

Senator PROXMIRE. You say they can solve it, they have solved it in Rhode Island, and it's something they could do elsewhere and they make a profit from it?

Representative ST GERMAIN. Exactly. And no increase in fraud and no losses. In Rhode Island they charge them a fee, a very fair

fee, and these people are willing to pay a fair fee. That's no problem.

Senator PROXMIRE. Thank you very, very much, Chairman St Germain.

Senator METZENBAUM. I would like to compliment the Chairman of the House Committee for an excellent statement and for his support of this entire proposition. I do remember when the matter was in the conference committee last year and you very clearly stated that this matter would be addressed and that you would be supportive of it, and I can't tell you how pleased I am to know that you are.

Representative ST GERMAIN. I look forward to working with you on this, Senator Metzenbaum.

Senator METZENBAUM. Thank you.

Senator PROXMIRE. I understand there's a vote in the House, so we'll be happy to excuse you.

Let me first say that Senator Metzenbaum has been a tiger on this issue. He's pressed it persistently on the floor of the Senate. He specifically requested hearings on it and action and if there's a Senate hero in this regard, it's certainly Senator Metzenbaum. Go ahead, sir.

STATEMENT OF SENATOR HOWARD M. METZENBAUM, U.S. SENATE, FROM THE STATE OF OHIO

Senator METZENBAUM. Thank you very much, Mr. Chairman. I want to thank you for convening this hearing today on my bill, S. 2110, and I want to also thank you for your support because when I offered an amendment I think it was 2 years ago on this subject—maybe it was 1 year ago—you did accept it. It then went to conference committee and it was dropped in the conference committee and you did assure me on the floor of the Senate that there would be hearings on this matter and a markup as well, and for all of that I am most grateful to you.

Let me say as a prefatory statement that you've been here longer than I have, but I've been here long enough to know that there are some subjects that demand congressional action and there are some subjects with respect to which Congress has some expertise, some knowledge, some special ability to handle a problem. But this is one of those where those most involved have the best expertise and I have been attempting to send a message to the banking industry from the very inception with respect to this issue that we're prepared to work with them to come up with a feasible logical solution. Nobody wants to hurt the banking industry. Nobody wants them to suffer. And I have had great difficulty. I've been able to get the message out, but with one exception—and that is a witness who will testify here today from National City Corporation of Cleveland, Mr. Ed Brandon—I have not been able to get the banking industry to say anything except Nancy Reagan's phrase, "Just say no." And I would just say that in this instance it's not applicable because we will not do as good a job as we could do if the banking industry helped us, and they may feel that they can defeat us once or twice or three times, but at some point we're going to do something on this subject and with the support of the Chairman of

the House Banking Committee and the concern expressed by the Chairman of the Senate Banking Committee, I think it's obvious that something is going to happen.

BANKS UNWILLING TO CASH GOVERNMENT CHECKS

The problem is that financial institutions are not willing to cash government issued checks for low income and elderly persons and, as a matter of fact, they are forced to turn to money exchanges and the Plain Dealer just the other day in Cleveland had an article about money exchanges stepping in for banks and then talking about all the negatives of that procedure.

The issue before us is simple and straightforward. We can no longer tolerate a situation where banks and savings and loans can say no to senior citizens, to low-income persons, and disabled veterans who simply need to cash their benefit checks. They're not asking for anything more than that.

According to a 1980 Consumer Federation study, 71 percent of the banks and savings and loans surveyed would not cash checks for noncustomers at any price. The Association of Community Organizations for Reform Now, known as ACORN, found that 88 percent of the institutions they talked to would not cash such checks. As a result, elderly and low-income persons who cannot afford to maintain bank balances are caught in a terrible bind. In order to cash their government benefit checks, they are forced to go to neighborhood liquor stores and check cashing outlets where they are forced to pay exorbitant fees.

The Consumer Federation found that it is not at all uncommon for check cashing outlets to charge $7.50 to cash a $500 Social Security check. One outlet in Los Angeles charged $25 to cash a $500 government check. When grocery stores or liquor stores are used to cash checks, individuals are often required to purchase the store's merchandise with a percentage of their check, sometimes up to 50 percent of the check amount. They have little left over to pay the rent and buy the clothing for their children.

I would like to read from a letter I just received from a man in Des Moines, Iowa:

> I, personally, am outraged that AFDC and Social Security recipients who live from month to month on a check of somewhere between $300 and $500 are being forced to pay as much as $50 to get them cashed. Banks make money because the Federal Government lets them make money. For banks to refuse to meet the needs of poor people just because they are unable to open their own accounts is outrageous.

The President of Louisiana ACORN, Mrs. Geraldine Ball, wrote:

> Here, in New Orleans, our banks do not cash government checks for nonaccount holders at any of their locations. Frankly, we have watched check-cashing ripoff businesses open branches directly across the streets from our local banks. How is it that the Government can bail out Texas and other banks to the tune of billions of dollars and we honest citizens of our country can't have these same banks cash the Government's own checks?

These citizens are right. Enough is enough.

My bill would ensure that individuals do not have to chase all over town to cash their government checks. And it would ensure that senior citizens and low-income persons were not charged exorbitant fees for the privilege of cashing such checks.

PURCHASE AN ID CARD AND CHECKS ARE CASHED FREE

Under my bill, individuals would apply to a financial institution for an identification card. The banks and S&L's could charge a reasonable fee for issuing the ID cards—to be determined by the Federal Reserve—but the checks would be cashed for free.

Mr. Chairman, all banks and savings and loans should be cashing Social Security checks and welfare checks as a matter of course. If they did, we wouldn't need this bill. We wouldn't need this hearing. I've been pushing the industry to adopt such a voluntary approach for more than a year. I frankly haven't gotten very far.

Let me also say that I'm willing to amend my bill. If there are ways to improve it, let's do it. For instance, if we need to strengthen or change the provisions dealing with identification requirements to better address the possibility of fraud, let's do it. If credit unions don't belong in this bill, let's take care of that.

But let me point out that legislatively there's usually a pendulum that swings one way or the other. Very seldom does it wind up in the middle and very seldom does Congress do exactly that which they should be doing. The bankers will come in today and say let's wait for the GAO report. Why? What's so important about the GAO report? Let's do that which we should be doing and let the bankers sit down with those of us in the Congress and work out a provision with which they can live so that the senior citizens and the poor and the veterans will have an opportunity to cash their checks.

As I said before, Mr. Ed Brandon of Cleveland's National City Corp. will offer some suggestions for altering my check cashing proposal. His ideas, for instance, including a separate provision to encourage people to have their checks deposited directly in financial institutions, are worth pursuing. He has other suggestions. I commend him for coming forth with positive suggestions. I am not prepared to say whether they are all good or bad, but at least he's making an effort to bring about a resolution of this issue. I wish I could say the same with respect to the banking industry generally.

The point that I make is that I want to work to make this thing work. I want to cooperate. But make no mistake about it, we have delayed long enough on this matter. We must take action so that people can walk into a neighborhood bank or a savings and loan and with proper identification cash a perfectly good government check.

I am so pleased to have the Chairman of the House Banking Committee come before us today to testify in support of this concept and I'm pleased about the fact that the House Banking Committee is including a check cashing provision in its bill dealing with expanded powers for banks. I look forward to working with my House and Senate colleagues to make this check cashing proposal a reality. It's the least we can do and I think the sooner we do it, the better will be the reflection upon the Congress of the United States as well as the banking industry of this country.

I thank you, Mr. Chairman.

[The complete prepared statement of Senator Metzenbaum follows:]

U.S. Senator Howard M.
METZENBAUM
of Ohio

Committees:
Judiciary
Labor and Human Resources
Energy and Natural Resources
Select Committee on Intelligence

Chairmanships:
Subcommittee on Antitrust
Subcommittee on Labor
Subcommittee on Energy
Regulation and Conservation

STATEMENT OF SENATOR HOWARD M. METZENBAUM
BEFORE THE SENATE BANKING SUBCOMMITTEE ON CONSUMER AFFAIRS
MAY 18, 1988

MR. CHAIRMAN, I'D LIKE TO THANK YOU FOR CONVENING THIS HEARING TODAY ON MY BILL, S. 2110, TO REQUIRE FINANCIAL INSTITUTIONS TO CASH GOVERNMENT-ISSUED CHECKS FOR LOW INCOME AND ELDERLY PERSONS WHO CANNOT AFFORD BANK SERVICE CHARGES.

THE ISSUE BEFORE US IS SIMPLE AND STRAIGHTFORWARD. WE MUST NOT TOLERATE A SITUATION WHERE BANKS AND SAVINGS AND LOANS CAN SAY NO TO SENIOR CITIZENS, LOW INCOME PERSONS AND DISABLED VETERANS WHO SIMPLY NEED TO CASH THEIR BENEFIT CHECKS.

ACCORDING TO A 1987 CONSUMER FEDERATION STUDY, 71% OF THE BANKS AND S&Ls SURVEYED WOULD NOT CASH CHECKS FOR NON-CUSTOMERS AT ANY PRICE. THE ASSOCIATION OF COMMUNITY ORGANIZATIONS FOR REFORM NOW (ACORN) FOUND THAT 88% OF THE INSTITUTIONS THEY TALKED TO WOULD NOT CASH SUCH CHECKS.

AS A RESULT, ELDERLY AND LOW INCOME PERSONS WHO CANNOT AFFORD TO MAINTAIN BANK BALANCES ARE CAUGHT IN A TERRIBLE BIND. IN ORDER TO CASH THEIR GOVERNMENT BENEFIT CHECKS, THEY ARE FORCED TO GO TO NEIGHBORHOOD LIQUOR STORES AND CHECK CASHING OUTLETS WHERE THEY CAN WIND UP PAYING EXORBITANT FEES.

THE CONSUMER FEDERATION FOUND THAT IT IS NOT AT ALL UNCOMMON FOR CHECK CASHING OUTLETS TO CHARGE $7.50 TO CASH A $500 SOCIAL SECURITY CHECK. ONE OUTLET IN L.A. CHARGED $25 TO CASH A $500 GOVERNMENT BENEFIT CHECK. WHEN GROCERY STORES OR LIQUOR STORES ARE USED TO CASH CHECKS, INDIVIDUALS ARE OFTEN REQUIRED TO PURCHASE THE STORE'S MERCHANDISE WITH A PERCENTAGE OF THEIR CHECK --SOMETIMES UP TO 50% OF THE CHECK AMOUNT. THEY HAVE LITTLE LEFT OVER TO PAY THE RENT.

I WOULD LIKE TO READ FROM A LETTER I JUST RECEIVED FROM A MAN IN DES MOINES, IOWA:

"I, PERSONALLY, AM OUTRAGED THAT AFDC AND SOCIAL SECURITY RECIPIENTS WHO LIVE FROM MONTH TO MONTH ON A CHECK OF SOMEWHERE BETWEEN $300 AND $500 ARE BEING FORCED TO PAY AS MUCH AS $50 TO GET THEM CASHED. ....BANKS MAKE MONEY BECAUSE THE FEDERAL GOVERNMENT LETS THEM MAKE MONEY. FOR BANKS TO REFUSE TO MEET THE NEEDS OF POOR PEOPLE JUST BECAUSE THEY ARE UNABLE TO OPEN THEIR OWN ACCOUNTS IS OUTRAGEOUS."

87-470 0 - 88 - 2

THE PRESIDENT OF LOUISIANA ACORN, MRS. GERALDINE BELL, WROTE:

"HERE, IN NEW ORLEANS, OUR BANKS DO NOT CASH GOVERNMENT CHECKS FOR NON-ACCOUNT HOLDERS, AT ANY OF THEIR LOCATIONS. ...FRANKLY, WE HAVE WATCHED 'CHECK-CASHING' RIP-OFF BUSINESSES OPEN BRANCHES DIRECTLY ACROSS THE STREETS FROM OUR LOCAL BANKS...HOW IS IT THAT THE GOVERNMENT CAN BAIL-OUT TEXAS (AND OTHER) BANKS TO THE TUNE OF BILLIONS OF DOLLARS, AND WE HONEST CITIZENS OF OUR COUNTRY CAN'T HAVE THESE SAME BANKS CASH THE GOVERNMENT'S OWN CHECKS?"

THESE CITIZENS ARE RIGHT. ENOUGH IS ENOUGH.

MY BILL WOULD ENSURE THAT INDIVIDUALS DO NOT HAVE TO CHASE ALL OVER TOWN TO CASH THEIR GOVERNMENT CHECKS. AND IT WOULD ENSURE THAT SENIOR CITIZENS AND LOW INCOME PERSONS WERE NOT CHARGED EXORBITANT FEES FOR THE PRIVILEGE OF CASHING SUCH CHECKS.

UNDER MY BILL, INDIVIDUALS WOULD APPLY TO A FINANCIAL INSTITUTION FOR AN IDENTIFICATION CARD. THE BANKS AND S & Ls COULD CHARGE A REASONABLE FEE FOR ISSUING THE ID CARDS -- TO BE DETERMINED BY THE FEDERAL RESERVE -- BUT THE CHECKS WOULD BE CASHED FOR FREE.

MR. CHAIRMAN, ALL BANKS AND SAVINGS AND LOANS SHOULD BE CASHING SOCIAL SECURITY AND WELFARE CHECKS AS A MATTER OF COURSE. IF THEY DID, WE WOULDN'T NEED THIS BILL. WE WOULDN'T NEED THIS HEARING. I'VE BEEN PUSHING THE INDUSTRY TO ADOPT SUCH A VOLUNTARY APPROACH FOR MORE THAN A YEAR. I HAVEN'T GOTTEN VERY FAR.

LET ME ALSO SAY THAT I'M WILLING TO AMEND MY BILL. IF THERE ARE WAYS TO IMPROVE IT, LET'S DO IT. FOR INSTANCE, IF WE NEED TO STRENGTHEN OR CHANGE THE PROVISIONS DEALING WITH IDENTIFICATION REQUIREMENTS TO BETTER ADDRESS THE POSSIBILITY OF FRAUD, LET'S DO IT. IF CREDIT UNIONS DON'T BELONG IN THIS BILL, LET'S TAKE CARE OF THAT TOO.

MR. ED BRANDON OF CLEVELAND'S NATIONAL CITY CORPORATION WILL OFFER SOME SUGGESTIONS FOR ALTERING MY CHECK CASHING PROPOSAL. HIS IDEAS -- FOR INSTANCE, INCLUDING A SEPARATE PROVISION TO ENCOURAGE PEOPLE TO HAVE THEIR CHECKS DEPOSITED DIRECTLY IN FINANCIAL INSTITUTIONS -- ARE WORTH PURSUING.

THE POINT IS THAT I WANT TO MAKE THIS THING WORK. I WANT TO COOPERATE. BUT MAKE NO MISTAKE. WE HAVE DELAYED LONG ENOUGH ON THIS MATTER. WE MUST TAKE ACTION SO THAT PEOPLE CAN WALK INTO A NEIGHBORHOOD BANK OR SAVINGS AND LOAN - AND WITH PROPER IDENTIFICATION - CASH A PERFECTLY GOOD GOVERNMENT CHECK.

I AM ENCOURAGED THAT THE HOUSE BANKING COMMITTEE IS INCLUDING A CHECK CASHING PROVISION IN ITS BILL DEALING WITH EXPANDED POWERS FOR BANKS. I LOOK FOWARD TO WORKING WITH MY HOUSE AND SENATE COLLEAGUES TO MAKE THIS CHECK CASHING PROPOSAL A REALITY. IT'S THE LEAST WE CAN DO.

Senator PROXMIRE. Senator Metzenbaum, you will be followed by Assistant Comptroller General for GAO, who is Mr. Richard Fogel. The reason I raise that point is because there's a difference between the statistics that you've given us and the statistics that GAO found and I wanted to question you and Mr. Fogel about that.

In your testimony you cite CFA and ACORN studies that show that 71 percent and 88 percent of banks and S&L's will not cash checks for noncustomers at any price. The 1985 nationwide GAO survey found that only 14 percent of banks and 45 percent of thrifts would not cash checks for noncustomers and the New Jersey study found that 50 percent of AFDC checks were cashed at banks.

What accounts for the differences in these statistics?

Senator METZENBAUM. I cannot answer what accounts for the difference, but I can tell you this, Mr. Chairman. If this weren't a problem that's prevalent in the banking industry today, you wouldn't have the bankers associations coming on so strong on opposition and you wouldn't have the consumer banks of America coming on so strong in opposition.

I think all you have to do is pick up the telephone and call ten banks at random and I think that you'll find that the thrust of my representation is confirmed much more than the GAO study. I don't know where those GAO figures come from. They may come from some of the smallest communities of America. I don't know what the situation is in some of the very small communities. That very well may be the case. But certainly in the major industrial cities of the country that is not the case.

Senator PROXMIRE. Well, that answer raised a question. Is this a problem that is centered primarily in urban and lower-income areas?

Senator METZENBAUM. Although I cannot answer that with specificity, it is my opinion that it is probably a much greater problem in the major cities of America or in the larger cities of America than it may be in some very small removed community where everybody in the community knows everybody else. That very well may have some impact on the statistics and I'm not certain that my representation in that respect is correct, but I would guess it would be.

Senator PROXMIRE. In your judgment, who should bear the cost of fraud losses? You express confidence that any potential fraud loss problems can be solved. Would you support a Connecticut type law where banks that follow Federal regulations would not be liable to reimburse the issuer of the check for wrongful payment?

Senator METZENBAUM. I would support some provision providing that there would be some very, very small surcharge, some very small cost, that the banks could charge in order to cover their possible fraud loss, almost in the nature of insurance. I would not support charging it back to the Federal Government. I see no reason to do that.

Senator PROXMIRE. Well, let's see if we can be specific about what that might be. The consumer groups are willing to permit a charge of $2 a check. Do you think that banks should cash government checks for free? If so, would that not be a costly endeavor given that your bill applies to all Federal, State and local government checks?

Senator METZENBAUM. My opinion is that they ought to cash the checks for free but there ought to be some figure determined perhaps by the Federal Reserve Board or perhaps in some other manner as to what would be a fair charge. My own opinion is the $2 charge is rather substantial, because I can't believe that one out of every 250 checks, assuming the average amount of $500, would be fraudulent. I just can't believe it would be that high, nor can I believe that their costs would be that high.

But I would be perfectly willing to have the Federal Reserve Board set some figure, whether it's 50 cents, a dollar, a $1½ or $2—I'd want to be fair about it, and I think that certainly can be determined by some objective source such as the Federal Reserve Board.

Senator PROXMIRE. Thank you very much, Senator Metzenbaum.

Senator Chafee, before you question Senator Metzenbaum, let me say that before you came in your distinguished colleague, the Chairman of the House Banking Committee, Congressman St Germain, was here and he indicated support for the Metzenbaum bill and I guess he has a similar bill before the House.

He said in Rhode Island, your State, banks cash checks for noncustomers, although this is a very uncommon practice in the country as a whole and that the banks were doing well with it.

OPENING REMARKS OF SENATOR CHAFEE

Senator CHAFEE. Yes, that has been our experience.

First, Mr. Chairman, I want to apologize for not being here the whole time. In the Finance Committee we're marking up the Canadian free trade agreement so that's been a very, very arduous and time-consuming challenge.

Yes, Chairman St Germain is quite right, and I'm interested in the proposal that Senator Metzenbaum has here and will certainly be anxious to review what the other witnesses—you've got quite a few witnesses here, who are waiting patiently or perhaps impatiently to get their views across, and I look forward to hearing those.

We're a small State and most of our governments seem to be fairly solid. I was thinking, suppose somebody walked in—what do you think of this, Senator Metzenbaum—in the days of the troubles for New York City, suppose somebody walked in with a sizable check drawn on the city of New York. Under your legislation, I presume the bank would be required to cash it, is that correct?

Senator METZENBAUM. Well, my legislation contemplates that there would be an identification.

Senator CHAFEE. Yes, there's no question about that. The person legitimately had it but the bank was really wondering whether New York was going to make it and that was my question.

Senator METZENBAUM. Oh, I see.

Representative SCHUMER. Could you change the setting to maybe Providence, RI?

Senator CHAFEE. No, no. It's my turn to ask the questions. Seriously, I suppose in the depths of the crisis for New York City I suppose there were legitimate concerns whether a check issued by the city was going to be valid. They were teetering on bankruptcy. I

think it's fair to say that. What would happen then? And it wasn't an individual who had had a long time relationship with the bank. There's no problem with those. A stranger comes in, has a check, properly identified, no question about that, an honest looking individual. It's just that he has a rather sizable check on New York City that the bank is not anxious to cash.

Senator METZENBAUM. Well, I think that we could probably work out some language to meet that situation, that where a public body has been publicly described as being in jeopardy of meeting its responsibilities and obligations, that doesn't happen very often in our country. We had it in Cleveland as a matter of fact at one point. But I certainly recognize what you're saying and I don't want to sit here and suggest in any way that the banks ought to bear a special burden, financial burden or any other kind of burden, for being obligated to cash government checks. So I think we could work out some language that probably could cover that situation because I think it would be a very rare one indeed where a community is in that kind of position.

Senator CHAFEE. Well, I'm sympathetic to your goal. Of course, we've done it at home, so I see somebody come in with a Social Security check and can't get the thing cashed, that's really a hardship on that individual.

Well, thank you very much, Mr. Chairman.

Senator PROXMIRE. Thank you, Senator Metzenbaum, very much.

Our next witness is one of the brightest men in the Congress, the Honorable Charles Schumer. We're happy to have you. Go right ahead.

STATEMENT OF CHARLES E. SCHUMER, U.S. HOUSE OF REPRESENTATIVES, FROM THE STATE OF NEW YORK

Representative SCHUMER. Thank you, Mr. Chairman, and I want to thank you and Chairman Dodd and the members of this subcommittee for holding this hearing focusing attention on the problems that many Americans face.

I apologize for having to leave and maybe delaying the hearing schedule because we did have a vote in the House. We usually don't have votes at this hour, but stranger things have happened.

I'd also ask consent that my entire statement be read into the record.

Senator PROXMIRE. Without objection, it will be printed in full in the record.

Representative SCHUMER. Thank you, Mr. Chairman.

I want to commend the committee because this hearing is particularly timely. The House Banking Committee is preparing to consider major financial services restructuring legislation and as the banks, securities, insurance and real estate industries argue about how to divide up the goodies of the financial system, Congress must ensure that no matter what the ultimate outcome, the average and especially the poorer consumer gets a fair shake.

I'm sure that all of you have seen, as I have, the proliferation in our cities of these check cashing emporiums that charge exorbitant fees. The establishments are impossible to miss with the flashing lights and enormous marquees. To me, those flashing lights sym-

bolize the failure of our banking system to address the needs of the poor in our society. Government has a special obligation to address this problem because it is the need to cash a government check, like a welfare, AFDC, or Social Security check, which drives many to these emporiums.

And let me just outline a couple of points. First, I've introduced in the House check cashing legislation similar to the Metzenbaum legislation, S. 2110. It's my hope that the House would include a bill very similar to that bill in banking legislation.

In reference to one of the questions that you have had, Mr. Chairman, about the $2 fee that was proposed by some groups. While I would obviously prefer a bill that would allow it for free, it's this person's opinion that a $2 fee per check is not unreasonable. It more than covers the transaction costs of the issue. The fraud issue, of course, is something we just don't know how much fraud there would be. Most people estimate it to be very minimal. The Metzenbaum bill and the Schumer bill both have provisions for the identification card which should reduce fraud even further. My guess is that a $2 fee might even allow the banks to make a small profit.

What we're really trying to do here is to say to those who are at the bottom of our society that if you get a $150 welfare check or a $200 Social Security check, a $18 or $20 fee doesn't have to come right off the top. The external benefits that the banks have like deposit insurance and that society would gain because the banks have facilities to do this—they're larger, they're better able to check on fraud and other things—make this something that I think is reasonable for the Government to ask.

So let me in conclusion—and I'm trying to move this along because I was supposed to be on the panel with Senator Metzenbaum—applaud the committee for taking up this important issue, but also encourage you to expand the scope of the hearing to incorporate other much needed consumer protections, particularly lifeline banking services. Again, I think those are essential to the people at the bottom rung of our society and I promise to work for the inclusion of these provisions in any financial services restructuring legislation.

I thank the chairman again for the opportunity to testify here.

[The complete prepared statement of Representative Schumer follows:]

CHARLES E. SCHUMER
10TH DISTRICT, NEW YORK

COMMITTEES
BUDGET
BANKING, FINANCE AND URBAN AFFAIRS
JUDICIARY

NEW YORK CITY DEMOCRATIC WHIP

128 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6616

1938 KINGS HIGHWAY
BROOKLYN, NY 11229
(718) 965-5400

1883 10TH AVENUE
BROOKLYN, NY 11218
(718) 965-5098

Congress of the United States
House of Representatives
Washington, DC 20515

Testimony of
The Honorable Charles E. Schumer (D-NY)
before
The Consumer Affairs Subcommittee
of the Senate Committee on Banking, Housing, and Urban Affairs

May 18, 1988

I want to commend Chairman Dodd and the members of this Subcommittee for holding this hearing and focusing attention on the problems that many Americans face in gaining access to even the most basic banking services. I am grateful for the opportunity to testify before you this morning concerning this important issue.

This hearing is particularly timely. The House Banking Committee is preparing to consider major financial services restructuring legislation. As the bank, securities, insurance, and real estate industries argue about how to divide up the goodies of the financial system, Congress must ensure that, no matter what the ultimate outcome, the average consumer gets a fair shake.

I am sure that all of you have -- as I have -- noticed the proliferation in our cities of check cashing emporiums that charge exhorbitant fees. These establishments are impossible to miss, what with the flashing lights and enormous marquees.

To me, those flashing lights symbolize the failure of our banking system to address the needs of all but the most affluent in our society. Government has a special obligation to address this problem because it is the need to cash a government check (like a welfare, AFDC or social security check) which drives many people to these emporiums.

The deregulation of financial services has been beneficial to the wealthy, who now have access to a broader array of investment options. Sadly, that freedom of choice has been accompanied by burdensome fees and minimum balance restrictions on the most basic and traditional services, pushing basic checking and savings accounts out of the reach of lower- and moderate-income consumers. In our current banking system, these consumers have been left behind, leaving them little recourse but these check cashing establishments.

A study by the Public Advocates Office of the State of New Jersey Public Advocate released in January of this year reports that over half of recipients of government checks do not cash their checks at banks. Fifty percent of those cashing checks even at state regulated emporiums were charged excessive fees, some exceeding the legal limit by as much as 500 percent. Significant violations were found at virtually every establishment investigated.

These abuses and illegalities effectively diverted desperately needed government assistance funds from needy recipients such as single mothers and the elderly, placing that money in the pockets of check cashing enterprises. With budget deficits already forcing us to make difficult choices, allowing such waste of critically needed funds to continue would be a scandal.

In response to this problem, Senator Metzenbaum has introduced S. 2110: the "Fair Access to Check Cashing Act", which is the subject of this hearing. This act requires that all depository institutions that ordinarily cash checks for their customers offer non-customers a check cashing card which would allow the holder to cash any government check without charge. Institutions could levy an initial processing fee to cover the reasonable costs of processing the application.

I heartily support this legislation and have introduced similar legislation in the House.

Chairman St Germain, I, and many members of the House Banking Committee continue to be very concerned over the growing elitism in the American banking system and committed to resolving that problem. The Chairman's draft financial service restructuring legislation contains-- among other laudable and important consumer protections-- a government check cashing provision that is similar to that in S. 2110. The Chairman has pledged that any new powers for banks will be accompanied by major consumer protection provisions.

In February, I introduced H.R. 4026, which also contains a government check cashing provision that is virtually identical to that offered by Senator Metzenbaum. I strongly support S. 2116 and feel that its passage would constitute a major step towards equality of access to banking services. Combined with "lifeline" basic checking account services, I feel that government check cashing is among the most important and most beneficial consumer provisions on the agenda.

The banking lobbies have raised many objections to all facets of the consumer protections in Chairman St Germain's draft legislation. Chief among those directed toward government check cashing are the cost of handling these checks and the potential for fraud. In response to the complaints of the bankers, members of a number of consumer groups have worked to devise compromise legislation that addresses the concerns of the bankers by providing for a $2 fee (resulting in more than $1 profit) per check and by not requiring banks to cash checks in excess of $5,000 or checks from another state.

While I continue to support the legislation as originally introduced, I would be willing to accept changes such as these in order to win approval for the measure. However, many bankers continue to oppose the provision, leaving me no choice but to conclude that the banks simply want to avoid serving lower- and middle-income consumers, regardless of cost.

I applaud the Subcommittee for taking up this important issue at this time. I would encourage you to expand the scope of these hearings to incorporate other much needed consumer protections, especially "lifeline" banking services, and to work for the inclusion of these provisions in any financial services restructuring legislation.

Thank you again for the opportunity to testify before you this morning.

Senator PROXMIRE. Thank you, Congressman Schumer.

Congressman Schumer, you say that if check cashers are taking as much as 5 or 10 percent of the face value of the check in your statement as the GAO suggested, then public assistance recipients, the poorest members of our society, are only getting 95 cents on the dollar. But is it fair to ask that the banks absorb the cost of cashing checks for welfare recipients? What would you think of a Connecticut type approach where a bank does not have to reimburse the State or the Federal Government for a loss incurred as a result of a wrongful payment of a check if the bank used the identification procedures required by the regulations?

Representative SCHUMER. Well, I think that might make some sense, Senator. I think the fee that's been proposed, a small fee that would cover immediate costs and probably give some margin for fraud could do the same thing, and that to me is reasonable. So then you might have maybe 1 percent of the check going to the cost of cashing it, which would not require the Federal Government to pay the cost nor the banks to pay the cost, but rather, the recipient to pay the cost but it would be a reasonable cost, without having one of these emporiums make a huge profit. It's a question I guess of why the system hasn't worked so that these check cashing places can lower their costs or someone else can come in and compete and cash a check for less money. I don't know the economics to it. But some system that didn't put the hit on the banks but did take the burden off the poor consumer I think is very possible and something that should be explored.

Senator PROXMIRE. Would a system using a low-cost account coupled with a direct deposit work? What would you think of a system that guaranteed government check recipients a low cost bank account if they agreed to a direct deposit of their check?

Representative SCHUMER. I think that's a very promising area that we could explore—that's sort of combining this issue and the lifeline issue. I think that makes a great deal of sense. I would still hope that we would be able to find some way to deal with the people who didn't open up a bank account for one reason or another because they have to feed their children, pay their rent and do the same things that others who would. But I think that to encourage people to do their banking at a regular branch by, in exchange for giving them a lifeline account, requiring them to cash their government check at that particular place makes a great deal of sense, Senator.

Senator PROXMIRE. Senator Metzenbaum.

Senator METZENBAUM. Congressman Schumer, this idea of opening a bank account, to many people who are recipients of these checks, the opening of a bank account taking "X" number of dollars and putting it aside is almost irreligious—it's something beyond their contemplation. They're trying to get enough money to just live. And no matter how much that account is, certainly if you talk about $500 or $200, that's a big amount of money for them, and if you start talking about a lesser amount of money, it would seem to me that (a) it doesn't provide much assurance to the bank, and (b) I'm not certain that there's any profit at all to the bank in having that kind of an account. It almost costs them more to maintain the account than it does to set it up. In fact, my recollection is

that some banks do charge on checking accounts a monthly charge if you don't maintain a balance high enough to satisfy their requirements.

Do you have any comments on that?

Representative SCHUMER. Yes. I think your point, Senator, is very well taken and let me salute your leadership on this issue, as on so many other consumer issues.

I think what you'd have to do if you were going to require them to open up an account is to require a low minimum balance and no fee as part of a lifeline account. Now I have proposed, and it was placed in Chairman St Germain's banking draft, a lifeline proposal which basically did that. You would have a bank account. You wouldn't have to have a significant minimum amount. You wouldn't pay a fee. You would have free checking for up to 8 or 10 checks a month. By the way, some banks are doing this already. I've had a number of the New York banks come into me and say that they already offer something similar to this and we could work something out. If you would combine with that the requirement that if you had such an account—and people need it, even poor people need it, they have telephones, they have electric bills and things like that that require payment one way or another—then you could say that at least you ought to cash your check at that particular bank.

So I think you could work the two out, but I certainly agree with you that the present system whereby you have high minimum balances and high fees if you fall below those balances, doesn't help the plight of the poor and we would have to go beyond that to some kind of lifeline system to make Senator Proxmire's suggestion work. But I think it could work and it's a promising way to maybe cut the Gordian knot and to add to the pile of cliches, kill two birds with one stone while we cut the Gordian knot. Please forgive me.

Senator METZENBAUM. Thank you. You've been tremendously supportive on this issue and it's been a pleasure to work with you on this issue and many other issues as well.

Representative SCHUMER. Thank you.

Senator PROXMIRE. Thank you, Mr. Schumer.

Our next witness is Richard L. Fogel, Assistant Comptroller General, U.S. General Accounting Office. We're happy to have you, sir.

Mr. Fogel, as you can see, we have a number of witnesses this morning and we'd appreciate it if you could confine your statement to—it looks like a fairly short statement—5 minutes.

STATEMENT OF RICHARD L. FOGEL, ASSISTANT COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY CRAIG SIMMONS AND ALISON KERN

Mr. FOGEL. Thank you, Mr. Chairman. I would like to introduce the team with me. Alison Kern has been the project director on this project and Craig Simmons is our associate director in the GAO that deals directly with financial institutions.

We are pleased to be here today and to give you a "GAO Report" on this issue, so hopefully this can facilitate the decision making of the Congress on this issue.

While our mandate was to study difficulties cashing U.S. Treasury checks, we decided to include State and local Government checks as well because we determined that those advocating change make little distinction between problems in cashing Federal, State, or local government checks. In fact, based on our work, it's our opinion that recipients of State and local government benefit checks are more likely to experience problems than those receiving U.S. Treasury benefit checks.

NATIONWIDE SURVEY OF FEES CHARGED BY BANKS

In 1986, we made a nationwide statistically valid survey of fees charged by banks and thrifts for checking account and other services. Among other things, we found that as of mid-1985, about 86 percent of the banks and 55 percent of the thrifts cashed U.S. Treasury checks for nondepositors. Of that total, nearly 56 percent of banks and 84 percent of thrifts cashed the Treasury checks free of charge. For those that charged for the service, the median fee was $2.

Now you asked Senator Metzenbaum how the statistics from the consumer groups differ from ours and we think that we would agree with Senator Metzenbaum. The studies that the consumer groups did focused mostly on urban areas, while ours was a valid national sample. So we were picking out banks not only concentrated in urban areas but in suburbs and rural areas, too. And although there is no nationally representative survey currently of check cashing experience with nonaccount holders at depository institutions, it's certainly our impression that access is considerably more of a problem in urban locations than in rural ones.

Banks which do not cash government checks for nondepositors cited three principal reasons why. (1) was unreimbursed costs if there was a requirement that such checks be cashed free, and (2) congestion of their facilities, and (3) potential fraud.

Unfortunately, we could find no definitive estimate of how much it cost to cash a government check. The Federal Reserve 1986 survey found that the cost of processing a check ran anywhere from about 28 cents to 33 cents, but the costs included aren't specified. The small bank in Florida provided us with an estimate of 66 cents per check which was also not all-inclusive. Other estimates range up to $5. It is interesting that in our survey the median fee being charged by the banks that did charge was $2 in 1985.

None of these estimates appear to quantify the cost of lost business due to congestion of lobbies—another labor cost that may be incurred by banks, which is one of their concerns and one of the reasons they cited for refusing to cash some checks for nondepositors.

As for fraud, we found the actual dollar amount Treasury reclaims—and this is only U.S. Treasury—from banks and thrifts or refused payment on to be quite small.

In fiscal year 1987, some 559 million Federal checks were issued, totaling about $622 billion. Treasury reclaimed or refused to pay only about 142,600 of those checks valued at about $64 million out of the $622 billion. Now of the 142,600 that they refused to pay, about 92,000 valued at about $39 million were issued to deceased

payees. So if you just look at Federal statistics—and this was all we were able to gather—the fraud issue does not seem to be a major problem at all.

Senator METZENBAUM. You said 92,000 were issued to who?

Mr. FOGEL. Deceased people, people who had died——

Senator METZENBAUM. And somebody else tried to cash them?

Mr. FOGEL. That's right, like Social Security recipients and they could try to correct that fairly easily.

Given the nature of complaints about check cashing problems, it is clear that those without banking relationships are the most likely to experience the most difficulty. To determine the characteristics of this group, we primarily relied on data in the Census Bureau's Survey of Income and Program Participation. This is a nationally projectable survey collected from about 20,000 households nationwide.

The Census data—and this was the latest data, it was 1984—indicated that there were about 92 million family units for this survey. About 18 percent of these family units didn't have bank accounts, so it's about 16.6 million families. Of the 16.6 million, 26 percent or about 4.3 million, received Treasury checks; and 18 percent received State or local government checks. And overall, about 42 percent of all these families received at least one government check from a State, local or Federal unit. Eighty-two percent of the families without bank accounts had an income under $20,000 and 80 percent were headed by individuals with 12 years of education or less.

As you cited in your opening statement, if you look at AFDC and general assistance, about 78 percent of all those families did not have bank accounts. For AFDC and general assistance, these checks are issued by State or local governments. About 15 percent of the families receiving Social Security did not have bank accounts and about 50 percent of those receiving Supplemental Security Income checks from the Federal Government did not have bank accounts.

Thus, the population of the United States without bank accounts is undoubtedly at the lower end of the income scale, relies relatively heavily on government benefit programs, and includes a significant percentage of the unemployed, and most have 12 years or less of education.

I'd like to elaborate on two reasons why they didn't maintain bank accounts, because we talked to them—inconvenience and cost.

I think this becomes important when you're looking at legislation about how you would want to fix the problem.

A 1987 survey by the New Jersey Public Advocate sheds some light on this. It studied about 4,800 AFDC checks to find out where they were cashed. Forty-seven percent were cashed at banks, 32 percent at check cashing facilities, 9 percent through friends, relatives or landlords, 12 percent at grocery stores, taverns, liquor stores and other locations. The department also interviewed about 750 individuals that had cashed checks outside check cashing stores and found that about 50 percent of their responses indicated that banks were inconvenient or they didn't want to use banks. So that's something that needs to be considered.

COST FOR CASHING CHECKS

Let us look at the cost issue for just a minute. Check cashing facilities operate in a number of States. One estimate is there are between about 2,000 and 3,000 of these nationwide. As far as we've been able to determine, these facilities are only regulated with regard to fees in three States. In New York, they can charge .75 percent of the face value plus 10 cents for a check; in New Jersey they can charge 1 percent of the face value for an in-State check or 1.5 percent for out-of-State checks up to a maximum of $8; and in Illinois they can charge 1.2 percent of the face value plus 90 cents.

In other States, though, we've been told that fees can be as high as 10 percent of the face amount of a check. A survey by the Consumer Federation found that a check casher charged as high as 5 percent of the face value of the government check in one State or almost $21.

Our 1986 survey showed that as of mid-1985, special low cost accounts were offered by banks and thrifts to senior citizens in 74 percent of the cases, students 41 percent, and minors 23 percent of the time, but only 15 percent offered no frill accounts to the general public and that's when you get into the lifeline banking. And they were not appropriate in all cases for the poor because they required high minimum balances or some other things that they couldn't afford.

There have been some government responses to this problem over time. A number of States have taken action to require low cost banking services. For example, Massachusetts requires free checking or savings accounts for those 65 and over and 18 and younger and it also requires banks and thrifts to cash certain checks presented by resident pensioners or retirees.

We've already talked about Connecticut. The interesting thing there is that the institutions may request a fee from the State for cashing checks for recipients of public assistance.

Some efforts have been made to facilitate the delivery of payments as well as share the cost of check cashing services and we believe the committee really ought to explore this alternative. For example, in New York City, under an arrangement with a bank, funds for welfare payments are sent to agents, primarily check cashing facilities. The recipients of the payments use magnetic cards issued by the city to establish their identity and the amount due them. They are given the full amount of the welfare payment and New York City bears the administrative costs which obviously is shared 50 percent with the Federal Government. But the point there is, the recipient presents the card, then the cash is provided, and the city absorbs the cost. It does not require them necessarily to go to one specific institution.

In Ohio, the State has contracted with banks that clear State checks or hold State funds to cash them, including AFDC recipients, and in one Ohio county the banks have agreed with the welfare department to cash checks for nondepositors.

There are some other experiments with food stamps by the Agriculture Department in Pennsylvania. There's another experiment that's going on in St. Paul.

You also asked us to comment very briefly on S. 2110. We don't have any real problems with that except for the cost issue, but one of the things we say is that mandating free checking is not the only way that can be proposed to improve individuals' access to government benefits. Electronic fund transfer has been cited as a way to solve check cashing problems, by bringing more government check recipients into the banking system. Our concern there is that that should not be required for recipients of government benefit checks until genuine low cost banking accounts with low opening balances are available to the general public. We don't believe it would be fair to ask them to go into the bank and not have lifeline type services.

In conclusion, we think it also might be worthwhile for the Congress to consider directing HHS and Agriculture, which deals with food stamp programs, and Treasury, in consultation with bank regulators, State and local governments and consumer groups, to assess current delivery patterns and the difficulties and needs of those receiving benefits. The solution should be targeted to those who are truly experiencing cash checking difficulties and the efforts to minimize the cost should be intensified.

[The complete prepared statement of Mr. Fogel follows:]

United States General Accounting Office

GAO Testimony

For Release
on Delivery
Expected at
10:00 a.m.
Wednesday
May 18, 1988

BANKING: Government Check Cashing Issues

Statement of
Richard L. Fogel
Assistant Comptroller General
General Government Programs

Before the
Subcommittee on Consumer Affairs
Committee on Banking, Housing and
Urban Affairs
United States Senate

Issues Related to Cashing
Government Checks

SUMMARY OF STATEMENT BY
RICHARD L. FOGEL
ASSISTANT COMPTROLLER GENERAL
U.S. GENERAL ACCOUNTING OFFICE

The Competitive Equality Banking Act of 1987 required that GAO study the extent to which individuals who receive Treasury checks have difficulty cashing such checks. GAO is testifying today on its preliminary results.

The issue of access to check cashing services at depository institutions is a difficult, complex, and emotional one. Consumer advocacy groups and others believe low and moderate income consumers have difficulty cashing government checks. However, there is little statistically valid data to assess the extent or cause of difficulties, and there is no common agreement as to what is meant by difficulty. Nevertheless, some individuals do not have depository accounts and are not able to cash their checks at local banks or thrifts. Instead, they cash them at local facilities, such as check cashers or grocery stores, that may charge fees or require minimum purchases considered by some to be too high.

Given the nature of check cashing complaints, it is clear that those without depository accounts experience the most problems. GAO analyzed the Census Bureau's Survey of Income and Program Participation and reviewed other studies to determine their characteristics. GAO found that the "unbanked" population of the United States is at the lower end of the income scale, relies heavily on government benefit programs, and includes a significant percentage of the unemployed. Reasons why individuals do not have accounts seem to center on cost and convenience. While special low-cost accounts for senior citizens are widespread, this is not so for the general population. Some individuals, however, may prefer to cash checks at places other than banks.

GAO believes any solutions being considered to check cashing problems should be targeted to those truly experiencing difficulty cashing government checks. GAO suggests that concerned federal agencies study benefit delivery patterns and needs and recommend improvements, including lower-cost options.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in your hearings on check cashing difficulties experienced by those without banking accounts. Section 1001 of the Competitive Equality Banking Act of 1987 required GAO to study the extent to which individuals who receive Treasury checks have difficulty cashing them. The results of this work to date form the basis for our testimony today.

The issue of access to check cashing services is a difficult one. Consumer advocacy groups and others have expressed concerns about the inability of many low and moderate income consumers to cash government checks at banking institutions. But there is little statistically valid data that can be used to evaluate the extent or cause of check cashing difficulties that individuals may be experiencing.

Indeed, there is no common agreement on what is meant by "difficulty." Without a clear delineation of the problem, it will be hard to decide what actions are most appropriate. In addition, should steps be taken to improve the ability of those with low and moderate incomes to cash checks at banking or other facilities, a decision is needed on who will bear the costs of such improved access--the government, the recipients of checks, or the institutions cashing the checks.

My testimony today is divided into two parts. First I want to summarize some of the information that we have gathered in the course of doing our review. Then I shall present our preliminary observations on the dilemma that is posed in searching for a federal response to check cashing problems.

RESULTS OF GAO'S SURVEY

Our survey of check cashing problems began in September 1987. In doing the work we (1) analyzed Census Bureau data to determine the characteristics of families receiving government benefit checks who might be experiencing problems; (2) reviewed certain state and local government arrangements designed to facilitate check cashing by those without bank accounts; (3) reviewed and evaluated available studies related to the issue of check cashing difficulty; and (4) had numerous discussions with bank regulatory agencies, other federal agencies, state and local officials, and consumer and industry groups.

While our mandate was to study difficulties cashing U.S. Treasury checks, we decided to include state and local government checks, as well. We determined that those advocating change make little distinction between problems in cashing federal, state, or local government checks. In our opinion, recipients of state and local government benefit checks are more likely to be

experiencing problems than those receiving U.S. Treasury benefit checks. Our survey of the issue covered three basic areas:

-- The extent to which banks and thrifts cash government checks for nondepositors and reasons why they may not.

-- The characteristics of those experiencing problems and why they do not have accounts at banking institutions.

-- Governmental responses to facilitate the delivery and cashing of government checks.

CHECK CASHING EXPERIENCE AT DEPOSITORY INSTITUTIONS

In 1986, we made a nationwide statistically valid survey of fees charged by banks and thrifts for checking account and other services. Among other things, we found that as of mid-1985 about 86 percent of banks and 55 percent of thrifts cashed U.S. Treasury checks for nondepositors. Of that total, nearly 56 percent of banks and 84 percent of thrifts cashed the Treasury checks free of charge. For those that charged for the service, the median fee was $2.00.

Studies conducted by consumer groups reveal different, though not necessarily contradictory results. According to the Association of Community Organizations for Reform Now, only 12

percent of the institutions they surveyed cashed checks for non-account holders in 1986. A Consumer Federation of America estimate was 29 percent in 1987. The institutions surveyed by these two organizations were not randomly selected and were predominately located in urban areas. Survey results by another organization and interviews reveal that access to check cashing services at depository institutions by non-account holders is much more limited in urban than in rural areas. Unfortunately, there is no current, nationally representative survey of the check cashing experience of non-account holders at depository institutions. Nonetheless, it is our impression that access is considerably more of a problem in urban locations than in rural ones.

Banks which do not cash government checks for nondepositors cite three principal reasons for their opposition to being required to do so. These include (1) unreimbursed cost if there were a requirement that such checks be cashed free of charge, (2) congestion of their facilities, and (3) potential fraud.

Banks believe that any efforts to expand access of nondepositors to check cashing services must involve compensation for the costs they would incur. But, we could find no definitive estimate of how much it costs to cash a government check. The Federal Reserve's 1986 Functional Cost Analysis survey found that the cost of processing a check is from $.28 to $.33, but the costs included are not specified. A small bank in Florida provided us

with an estimate of $.66 per check, which also was not all inclusive. Other estimates range up to $5.00.

None of these estimates appear to quantify the cost of lost business due to congestion of lobbies--a reason frequently cited by institutions for refusing to cash checks for nondepositors. Bankers indicated that large numbers of individuals in lobbies 2 or 3 days a month strained labor and capital resources, resulting in poor service to regular bank customers who pay for those services. Consumer advocacy groups can counter that if more banks cashed checks for nondepositors, the few banks that now do would not experience the congestion problems they currently have.

As for fraud, we found the actual dollar amount Treasury reclaims from banks and thrifts or refuses payment on to be smaller than the claims of banking groups imply. (The aggregate data do not, of course, reflect local or regional differences.) Past levels of fraud, however, may not be a guide if free government check cashing for nondepositors is mandated.

In FY 1987, some 559 million federal checks were issued, totaling $621.6 billion. In FY 1987, Treasury reclaimed or refused payment on 142,632 checks valued at $63.7 million. Of these checks, about 92,000 valued at $38.9 million were issued to deceased payees. These data do not accurately depict bank losses

from Treasury reclamations or declamations because banks are able to collect some of the amounts reclaimed.

We have not been able to obtain estimates of the percentage of funds banks are able to recapture (or at what cost) from accounts, or from businesses or persons who cashed the checks. We do not have comparable data for fraud levels for state and local government checks.

WHO IS HAVING PROBLEMS?

Given the nature of the complaints about check cashing problems, it is clear that those without banking relationships are the most likely to be experiencing the most difficulty. To determine the characteristics of this group we relied primarily on data obtained in the Census Bureau's Survey of Income and Program Participation. This survey is nationally projectable, is collected from about 20,000 households nationwide, and includes data on participants in federal, state, and local programs that disburse benefits. It also contains information on whether or not these participants maintain bank accounts.

Census data indicate that there were about 92 million family units appropriate for our study in the United States in 1984. These data were the latest that were available for our analysis.

About 18 percent of these families did not have bank accounts. Of these 16.6 million families:

-- 4.3 million or 26 percent received Treasury checks, and 3 million or 18 percent received state or local government checks;

-- the number of unbanked families receiving at least one government check was 7 million, or 42 percent of all unbanked families; and

-- 82 percent of families without bank accounts had an income under $20,000, and 80 percent were headed by individuals with 12 years of education or less.

If individual government programs are examined, Aid to Families With Dependent Children (AFDC) and general assistance have the highest percentage of unbanked families--78 and 77 percent, respectively. These checks are issued by state or local governments. About 15 percent of families receiving Social Security checks and 50 percent of those receiving Supplemental Security Income checks were unbanked.

Thus, the unbanked population of the United States is at the lower end of the income scale, relies relatively heavily on

government benefit programs, includes a significant percentage of the unemployed, and most have 12 years or less of education.

In light of the data on bank policies on cashing checks for nondepositors and claims about the problems they pose, we sought to understand why individuals do not have bank accounts. We had discussions with individuals and consumer group representatives and reviewed studies on the check cashing experience of individuals. Principal reasons given as to why individuals do not have bank accounts were (1) banks do not meet all the needs of certain individuals for several reasons, and (2) some individuals prefer to use non-bank check cashing facilities.

Check cashing facilities were perceived by some to be more convenient in their hours and locations. For example, they were open when banks were not. Others thought bank accounts did not seem necessary, given the limited number of transactions they made. Reasons for not dealing with banks also included high opening and minimum balance requirements, a credit card requirement to open an account, delayed access to funds, and lack of bilingual materials and personnel. We also heard that fear of losing welfare benefits also kept some individuals from opening accounts.

I would like to elaborate on two of the principal reasons for not maintaining bank accounts: inconvenience and cost.

Inconvenience

A survey by the New Jersey Department of the Public Advocate sheds some light on this consideration. The New Jersey study team reviewed 4,842 cancelled AFDC checks and found that 47 percent were cashed at banks; 32 percent at check cashing facilities; 9 percent through friends, relatives, and landlords; and 12 percent at grocery stores, taverns, liquor stores, and other locations. The department also interviewed 750 individuals outside 29 licensed check cashing stores and found that about 50 percent of the responses of those cashing government checks indicated that banks were inconvenient. These inconveniences included long lines at those few banks that did cash checks for nondepositors, receipt of checks on days when banks were closed, and the observation that few banks issue food stamps while many check cashers do.

Cost

Let me now address the cost issue by providing some comparative data on check cashing facilities and banks. Check cashing facilities operate in a number of states. An official of the National Check Cashing Association estimates that between 2,000 and 3,000 operate nationwide. As far as we have been able to determine, these facilities are regulated with regard to the fees they charge in only three states. Regulated maximum fees are:

New York: .75 percent of face value plus 10 cents.

New Jersey: 1.0 percent of face value for in-state checks and 1.5 percent for out-of-state checks up to a maximum of $8.00.

Illinois: 1.2 percent of face value plus 90 cents.

Thus, in these states the cost to an individual wanting to cash a $411.45 check, the average Social Security check in November 1987, would range from $3.19 to $6.17. In other states we have been told that fees can be as high as 10 percent of the face amount of a check. A survey of check cashers found a high of 5 percent of the face value of a government check, or $20.57 in one state.

GAO's 1986 national survey of bank fees revealed that, as of mid-1985, special low-cost accounts were being offered by banks and thrifts to senior citizens (74 percent), students (41 percent) and minors (23 percent). But only 15 percent offered "no-frills" accounts to the general public and they were not all appropriate for the poor. For example, some required high opening balances. Our calculations indicated that the cost to maintain such a "no frills" account for a consumer with an income of under $10,000 who wrote eight checks per month and maintained a balance of about $260 in the account would vary considerably. For 37 percent of these customers there would have been no cost, 29

percent would have paid between $3.00 and $4.00, a month and 9 percent would have paid over $5.00 to $10.00 a month.

The cost of maintaining a checking account at some banks may be less than that of using a check cashing facility. But the convenience of check cashing facilities also appears to be a very important consideration. Certain studies that have been done indicate that cultural attitudes such as a basic distrust of banks, illiteracy, and an inability to maintain sufficient identification to meet bank requirements also seem to play a role.

GOVERNMENTAL RESPONSES

Over the past several years, there have been federal as well as certain state and local government responses that address both the affordability of basic banking services and the cashing of government checks.

In 1986, the Federal Financial Institutions Examination Council issued a joint policy statement that encouraged the offering of inexpensive basic banking accounts, including check cashing privileges. And a number of states have taken actions to require low-cost banking services. For example, Massachusetts requires free checking or savings accounts for those 65 and older and 18 and younger, and it also requires banks and thrifts to

cash certain checks presented by resident pensioners or retirees if they provide adequate identification; are registered with the institution; and the check is a federal, state, or local government retirement, social security or supplemental security income check.

Connecticut will soon require banking institutions to cash state checks issued to recipients of public assistance without charge to the recipient. However, the institution may request a fee from the state for cashing such checks. We understand the state limited the free check cashing requirement to state public assistance recipients because it did not believe federal check recipients were having problems.

Some efforts have been made to facilitate the delivery of payments as well as share the costs of check cashing services. In New York City, under an arrangement with a bank, funds for welfare payments are sent to agents, primarily check cashing facilities. Recipients of the payments use magnetic cards issued by the city to establish their identity and the amount due them. They are then given the full amount of their welfare payment. New York City bears the cost. In Ohio, the state has contracted with banks that clear its state warrants (checks) or hold state funds to cash the warrants, including AFDC warrants. In one Ohio county, banks agreed with the welfare department to cash warrants (checks) for nondepositors.

State and local governments maintain accounts at banks used, among other reasons, to make public assistance payments. The Uniform Commercial Code requires a bank to cash checks drawn on that bank when presented over the counter for payment, regardless of whether or not the presenter has an account. The bank may take appropriate steps to ensure that the check is authentic and the presenter is the payee.

OBSERVATIONS ON PROPOSED APPROACHES TO CHECK CASHING PROBLEMS

You asked us to comment on S. 2110, which proposes that banks cash government checks free of charge for nondepositors. There are not sufficient data to accurately measure the scope or severity of problems individuals without bank accounts are experiencing cashing government checks. And, without that data it is hard to decide whether S. 2110 or an alternative approach is most appropriate.

The requirement contained in S. 2110 would give those not currently using banks to cash their checks the option to do so. Unknown, however, is the extent to which that option would be exercised. While free check cashing would certainly lower the direct costs to those who currently use check cashing facilities or other nonbank means of cashing checks, it appears from our work that the current preferences and needs of portions of the

unbanked population are based on other considerations besides comparative cost.

S. 2110 would also place sole responsibility on banking institutions for bearing the costs of relieving the problem that is perceived to exist. If it is believed that beneficiaries of public assistance should not bear the cost of cashing government checks, consideration should also be given to governmental acceptance of part or all of the costs of cashing public assistance checks, as has occurred in certain instances at the local level.

Mandated free checking is not the only way being proposed to improve individuals' access to government benefits. Electronic Funds Transfer (EFT), for example, has been cited as a way to solve check cashing problems by bringing more government check recipients into the banking system. Desirable features cited include eliminating problems of check forgeries and long lines at banks and recipients' difficulties when checks are stolen. Individuals would also obtain additional benefits. Use of EFT would also lower government costs.

While in general we encourage the use of EFT, it should not be required for recipients of government benefit checks until genuine low-cost basic banking accounts with low opening balances are widely available to the public. Even if such

services do become widely available, there still could be questions about whether requiring EFT would represent an unwarranted interference with the preferences of those who do not want to have bank accounts. Other suggestions include use of EFT with debit cards.

We believe that the solution being sought should be targeted on those who are truly experiencing check cashing difficulties and that efforts to minimize the cost should be intensified. It might be worthwhile for the Congress to direct the Departments of Health and Human Services, Agriculture (for the food stamp program), and Treasury, in consultation with the banking regulators, state and local governments, and banking and consumer groups, to assess current benefit delivery patterns and the difficulties and needs of those receiving such benefits. Even if changes to improve delivery and to lower costs recommended by the study are implemented, there will still be costs associated with making cash payments available. Study results could help the Congress decide how to most equitably distribute those costs. Nevertheless, a public policy decision as to who should bear the costs remains.

That concludes my prepared statement. We would be pleased to answer questions.

Senator PROXMIRE. Thank you very much, Mr. Fogel.

POSSIBLE INCREASE IN FRAUD

Mr. Fogel, the American Bankers Association says that fraud in the cashing of government checks will increase if banks are required, mandated by law, to cash checks for noncustomers, according to the ABA.

Now the ABA says that banks current discretion to decline to cash such checks acts as a deterrent to fraud.

What's your response?

Mr. FOGEL. Well, I'd like to let Miss Kern speak to that. Our statistics, again looking for Federal checks, just doesn't bear that out, regardless of where they're cashing. And my own feeling would be, with proper identification, you could certainly mitigate that type of problem.

Miss KERN. I agree with Mr. Fogel. The numbers that we have are fiscal 1987 numbers and it would appear that in the urban areas a number of the banks are not cashing these checks for nondepositors. So the effect, if they were required to do so, can't really be known, but as Mr. Fogel said, if proper identification is required that could mitigate that.

Senator PROXMIRE. So you think the answer is proper identification?

Mr. FOGEL. That's correct.

Senator PROXMIRE. Mr. Fogel, your testimony provides the committee with some very useful information on the subject, but the study hasn't been completed. As you are well aware, the Competitive Equality Banking Act of 1987 requires the GAO to complete the study by February of this year. Now why is the study late and what remains to be done and when can we expect the final study? First, why is it late?

Mr. FOGEL. Well, I think one of the reasons it's late is that some of our resources got diverted to look at the market crash and some other issues and we've only got so many people that we can apply to things and we wanted to try to be as responsive as we could to the needs of the committees as events transpired.

We've been working very hard. The results of the final study will be prepared in several months but we really don't think we're going to find much different. We're trying to work with Census to get some updated information on the SIPP study to see what happened in 1985, but for all intents and purposes, I believe that what we are providing you today would be a fairly sound basis for trying to make some decisions.

Senator PROXMIRE. And you say we can expect the final study when?

Mr. FOGEL. By September of this year.

Mr. SIMMONS. Let me add that we have kept your staffs updated on the progress of our work. Shortly after the legislation was passed, we tried to determine the needs of Senator Metzenbaum's staff and the House and Senate Banking Committees' staffs. It became fairly clear that the amount of work we had to do probably couldn't be done in 6 months, but we have kept your staffs in-

formed about our progress and shared information with them on our progress.

Senator PROXMIRE. Now you testified that the 1984 census data shows that 18 percent of the public do not have checking accounts and that the figure has been going up in recent years. Is that right? What does your research show on the increase more recently?

Mr. FOGEL. I don't think we have anything in more recent years. That's the most recent data we were able to get from Census.

Senator PROXMIRE. Is it true that it shows that the percentage is going up?

Mr. FOGEL. We just have that one point in time because it just started doing that survey in 1984. We're going to try to get for you as quickly as we can the 1985 results.

Miss KERN. The Federal Reserve studies have shown over the last few years slight increases in the number of unbanked families.

Senator PROXMIRE. In your testimony you cited a GAO survey that shows that 86 percent of banks and 55 percent of thrifts cash U.S. Treasury checks for nondepositors with many of them cashing the checks for free.

Do you have any data about their experience with fraud, identification problems, increased costs, all issues raised by the bank witnesses?

Mr. FOGEL. No, we don't. I would like to point out, too, that it's interesting and I'd be glad to submit this for the record a table from our report—that the percentage of banks providing services at no charge to nondepositors has dropped significantly. It was 98.5 percent in 1977 and it dropped to 55.6 percent in 1985. So there's been a precipitous drop in that.

[The following information was subsequently submitted for the record:]

United States General Accounting Office

GAO

Report to the Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate and the Chairman, Committee on Banking, Finance and Urban Affairs, House of Representatives

July 1987

BANKING SERVICES

Changes in Fees and Deposit Account Interest Rates Since Deregulation

Table 2.15: Percentage of Banks and Thrifts Providing Other Services to Nondepositors

	Banks			Thrifts		
Service	1977	1983	1985	1977	1983	1985
Treasury checks	84 0%	85 6%	86 4%	54 2%	54 1%	54 9%
Cashier's checks	81 9	91 8	91 1	31 2	48 4	56 0
Money orders	68 6	81 7	85 4	63 8	77 8	78 8

Table 2.16: Percentage of Banks and Thrifts Providing Other Services at No Charge to Nondepositors

	Banks			Thrifts		
Service	1977	1983	1985	1977	1983	1985
Treasury checks	98 5%	61 8%	55 6%	99 0%	92 6%	83 8%
Cashier's checks	9 4	2 1	1 2	75 5	38 4	20 0
Money orders	7 4	1 4	0 7	19 9	10 3	3 0

Note: Percentages apply only to institutions that provide such services.

Senator PROXMIRE. Let me ask you to give me a little speculation. If S. 2110 were adopted, how many people would use banking accounts? You cite a number of reasons why people do not cash government checks at banks. If it were adopted with free check cashing, what percentage of the people not presently cashing checks at depository institutions do you think would use the banks to cash their checks?

Mr. FOGEL. I think it would be hard for us to speculate on a percentage. I think the thing that does concern us, though, based on the research we've done, is that wouldn't necessarily solve the problem because not all these people would go to banks. We don't have a sense—perhaps some of the other witnesses would—of what percent of the people now that don't use them might be willing to go to banks.

Senator PROXMIRE. But it's pretty clear that if banks in all cases cashed checks for free that more people would go than go now.

Mr. FOGEL. Undoubtedly.

Senator PROXMIRE. Senator Metzenbaum.

Senator METZENBAUM. Just one question. Mr. Fogel, as I understand it, the thrust of your response to the chairman concerning the September report is that you don't anticipate anything substantially different than that which you've testified to here today and therefore there isn't any logical reason for Congress to delay any action waiting for the final GAO report?

Mr. FOGEL. That's correct. I think we might get some more updated statistics, but I wouldn't see that the final report is going to be much different.

CHECK CASHERS DON'T WORRY ABOUT FRAUD

Senator PROXMIRE. Let me ask you just one more question. Check cashers don't seem to worry about fraud. I wonder why the banks dwell on that issue. Your testimony contains almost no discussion of fraud, whereas later testimony from the banking industry focuses very heavily on fraud. I have a solicitation from a check casher that says—and I quote—"Checks cashed, no ID required." It's right here. That does not suggest that they are very concerned about fraud. Do you have any data from check cashers that suggests that fraud is a large problem for them?

Miss KERN. We have talked with a group of check cashers that operate check cashing stores. They were not able or did not give us any data on the fraud that they do have. However, they told us of their security measures for cashing checks which can involve lengthy training of tellers, verification of the source of the check, calling the writer of the check to ask if the check had been given to that particular person. If they could, they would call the bank and ask if there was enough money in the bank to cash the check. And a number of very stringent identification requirements.

We also have heard from some banks that when the Treasury is reclaiming funds for fraudulently cashed Treasury checks that the banks have sent in, that the banks in many cases go back to check cashers who originally cashed those checks and get the money from the check cashers. But we don't have any firm data on the extent of fraud that the cashers themselves experience.

Senator PROXMIRE. Then let me ask what do you think any legislative solution would have to do to avoid major fraud problems?

Miss KERN. The identification seems to be the real key to the whole thing. The bank is able to assume that the check itself coming from the Treasury or a local government is not going to bounce, but the real question is, is that the person?

Mr. FOGEL. For example, in New York City where you're using a debit card, the requirement there is the individual has to get an identification with his or her photo and then that's used when he or she presents the debit card to get his money. That seems to work pretty well in those places where they have those type of debit cards, where you have a photo with an ID.

Miss KERN. There's a very interesting experiment in Ramsey County, St. Paul, for the AFDC program that's been going on where the AFDC recipients were given identification cards with a photograph and they used that card at ATM machines or at point of sale institutions such as grocery stores or drug stores. They are also given a four digit number, a PIN number in essence, and they use that PIN number with the card at the machine so there's no question at all of their identity. Then they withdraw the amount of the AFDC payment that they wish to withdraw at that time.

Senator PROXMIRE. Well, thank you, Mr. Fogel and Miss Kern and Mr. Simmons.

Now we have a panel of three witnesses, Tom Ritter, chairman of the House Banks Committee in Hartford, CT; John Gleeson, director of the Division of Citizens Complaints, New Jersey Department of the Public Advocate; and Margaret Willis, president of the Ohio State Consumer Education Association, Ohio Welfare Rights Organization, Cleveland, OH

Mr. Ritter, you're a member of the Connecticut House of Representatives, is that right?

Mr. RITTER. Yes, Senator.

Senator PROXMIRE. Do you represent Avon by any chance?

Mr. RITTER. No. I live right near Avon. I represent Hartford.

Senator PROXMIRE. My daughter lives in Avon and I thought maybe she was one of your constituents.

Mr. RITTER. Avon is probably a little bit too Republican for me to be able to represent, but it's a very nice community.

Senator PROXMIRE. Well, if you run against Lowell Weicker and you can represent her.

Mr. Ritter, go right ahead, sir.

STATEMENT OF THOMAS D. RITTER, SECOND DISTRICT, HOUSE OF REPRESENTATIVES, CONNECTICUT

Mr. RITTER. Thank you, Senator.

Senator PROXMIRE. May I ask you folks if you would confine your oral remarks, if possible, to 5 minutes and we'll put your testimony in full in the record.

Mr. RITTER. Thank you, sir. I can be brief and raise a few points that haven't been raised earlier.

We did pass a law in Connecticut last year which does mandate all banks to cash public assistance checks and we limited it to

public assistance checks because that's really where we thought the major problem was.

One thing which hasn't been said today, the banks were very cooperative in this effort. I mean the 1st and the 15th of each month not only are the clients having trouble cashing their checks so in effect the banks had been voluntarily complying on cashing their checks, had their lobbies just turned over to many strangers and people who did not have any relationship with the bank and they worked with us because they really cared about having other banks share the burden that they were handling. So they were very cooperative in this effort and it certainly has helped them out.

Before we started only 50 percent of the banks in Connecticut were cashing checks. Now our regulations will be in place soon and all the banks will be doing it.

We found really three areas where we thought we could accomplish a dual purpose again of having shorter lines in lobbies and also helping clients, and that is direct deposit in addition to having all banks, and we're working on that. And also, we're looking at staggering checks. One of our major problems has been the time period between our fiscal year and the Federal Government's fiscal year and the waivers that we are told we have to get is burdensome, but any relief in that area would certainly be helpful because we would look forward to staggering our checks, particularly around the 1st day of the month which is more burdensome than the 15th.

In terms of fraud, I can tell you that the banks that had been cashing checks even before this law went into effect did have the right to look to the State for reimbursement and in most of the cases the amounts of fraud were so few and far between that the administrative costs of actually applying to the State for reimbursement was not worth it for the banks and we've had very few claims. We've had a history again of reimbursing our banks, the ones who voluntarily complied.

So I would say, at least in Connecticut, this has been a real joy to pass this piece of legislation. There's over a million checks that are cashed each year and what we're really talking about, at least in Connecticut, is the AFDC mother who no longer has to get in a bus and travel downtown to cash her check and now the woman is able to go to a branch nearby or to a bank that's nearby and it's really proved to be a tremendous benefit, again not only to the client but also to the banking community, and there's been very little opposition even though it's for no fee. I think partly that's because we've made sure working with our Treasurer that any bank that really feels that they are being wronged by having such an obligation we've tried to work some of our State checking accounts into those banks and other investments so the banking community, while it's not getting a fee for doing this, we tried our best to work with them to make it worth their while or at least they don't complain very much.

So we're very pleased and we'd like to see Federal legislation and we think we have a very good model for you.

[The complete prepared statement of Mr. Ritter follows:]

State of Connecticut
HOUSE OF REPRESENTATIVES
STATE CAPITOL
HARTFORD, CONN. 06106

REPRESENTATIVE THOMAS D. RITTER
SECOND DISTRICT

734 PROSPECT AVENUE
HARTFORD, CONNECTICUT 06105

CHAIRMAN
BANKS COMMITTEE
MEMBER
JUDICIARY COMMITTEE

TESTIMONY OF STATE REPRESENTATIVE THOMAS D. RITTER (D.-2 HARTFORD, CT.)
SENATE BILL 2110
A BILL TO PROVIDE ACCESS TO CHECK CASHING SERVICES

Thank you very much for the opportunity to testify today. My name is Thomas D. Ritter. I am a member of the Connecticut state legislature, representing the City of Hartford in the House of Representatives. I am also House Chairman of the legislature's Banking Committee.

In 1987, Connecticut legislators unanimously passed a law that requires all banks taking deposits in Connecticut to cash public assistance checks.

I introduced this legislation after spotting a long line of people, mostly women and children, standing outside a downtown Hartford bank one very cold and snowy afternoon. These people were waiting to cash their welfare checks. This downtown bank was one of the few banks that would honor their checks as long as they waited in the specially designated "welfare" line so they didn't interfere with the "regular" bank customers.

Upon further investigations, our committee discovered three main reasons for congested bank lobbies on the day government checks are issued:

(1) Many banks refused to cash public assistance checks unless the recipient had an account with the bank with funds in excess of his monthly government allotment--a practical impossibility for almost anyone on welfare;
(2) Our public assistance agencies had no system for direct deposit of welfare checks; and
(3) Most public assistance checks are all issued on the same day of the month.

The easiest problem to solve in attempting to remedy the bank lobby congestion I witnessed was the first. Our bill was a cooperative effort among legislators, the Connecticut Banking Commissioner, the Connecticut Commissioner of Income Maintenance, the State Treasurer and our banking community. The result was a well-drafted piece of legislation that mandates all banks to cash any check issued by the state which is payable within the state to a recipient of public assistance. The check must be presented by the recipient and acceptable identification must be produced. Proposed regulations contemplate requiring at least one photo identification.

Unlike the proposed federal law, the Connecticut law requires no registration with any bank and no fee or service charge can be levied against the recipient. The recipient need not have an account with the bank. The

provisions of our law also apply to credit unions if the recipient is a member.

Our Department of Income Maintenance issues over 1,200,000 public assistance checks a year. Many of these are mailed to poor women with very young children. Others are sent to blind, disabled and elderly individuals. Most recipients have transportations problems and it is difficult for them to go a distance to find a bank that will honor their government checks.

Our Connecticut law, like your proposed "Fair Access to Check Cashing Act", strikes a balance between the needs of our most disadvantaged citizens and the legitimate administrative concerns of the banking industry.

The proposed Senate bill, since it covers all government-issued checks, will also help the government worker who now has a bank put a hold on his deposited check for several days before he can have access to his hard-earned money.

Our experience in Connecticut has shown that as long as each recipient is required to produce adequate identification, the banks are protected from losses due to fraudulent transactions. Adequate identification requirements also protect the recipient whose public assistance check may have been lost or stolen.

While our state regulations are not yet in place, Connecticut banks have already seen shorter lobby lines on the 1st and 15th days of the month. All banks are now equally sharing a responsibility that only a few once bore.

(A copy of Connecticut Public Act No. 87-24 is attached).

Substitute House Bill No. 5558
PUBLIC ACT NO. 87-24

AN ACT CONCERNING THE CASHING OF STATE CHECKS.

Section 1. (NEW) (a) For the purposes of this section: (1) "Banking institution" means a state bank and trust company, national banking association, industrial bank, state or federally chartered savings bank, state or federally chartered savings and loan association, state or federally chartered credit union or other state or federally chartered banking institution having an office within this state; (2) "recipient of public assistance" means any person receiving public assistance under chapter 302 of the general statutes or the Refugee Program.

(b) Each banking institution shall cash, at its main office or any of its branch offices within the state, any check drawn by the state of Connecticut and payable within the state to a recipient of public assistance, if the check is negotiated to the banking institution by the original payee of the check, and if the payee produces reasonable identification as provided for in regulations adopted pursuant to section 2 of this act. No banking institution shall charge a recipient of public assistance a fee for cashing a check pursuant to this section. Nothing in this section shall preclude a banking institution from requesting a fee from the state of Connecticut for cashing such checks. The provisions of this subsection shall apply to a state or federally chartered credit union only if the original payee negotiating the check is a member of such credit union.

(c) Nothing in this section shall be interpreted as limiting any rights which the banking institution may have against the payee by contract or at law, with regard to items which are negotiated to it as provided for in this section, which are not paid upon presentment or where such payee breaches a warranty made under section 42a-4-207 of the general statutes. This section shall not apply to any check negotiated to a banking institution if such institution has reason to believe that the check will not be paid on presentment or that the tendering party may be in breach of one or more of the warranties contained in said section 42a-4-207.

(d) No banking institution shall be liable to reimburse the state of Connecticut for a loss incurred as the result of the wrongful payment of any check cashed pursuant to this section, provided at the time such check was cashed such banking institution employed the identification procedures prescribed in regulations adopted pursuant to section 2 of this act.

Sec. 2. (NEW) The commissioner of income maintenance, in cooperation with the banking commissioner, shall adopt regulations in accordance with chapter 54 of the general statutes specifying: (a) The forms of reasonable identification which a banking institution shall accept when cashing a check pursuant to section 1 of this act; and (b) the identification procedures such institution shall employ to avoid liability for the wrongful payment of any such check.

Sec. 3. This act shall take effect from its passage, except that section 1 shall take effect October 1, 1987 or on the effective date of the regulations adopted pursuant to the provisions of section 2 of this act, whichever is later.

Approved April 6, 1987

BEST AVAILABLE COPY

Senator PROXMIRE. Thank you very much, Mr. Ritter. Your Senator chairs this subcommittee and he's a marvelous Senator, one of the very best, but as you know he has to be up in Connecticut today on official business so that he couldn't be here, but I'm sure he would want to pay his respects to you.

Mr. RITTER. Thank you, Senator.

Senator PROXMIRE. Mr. Gleeson.

STATEMENT OF JOHN W. GLEESON, DIRECTOR, DIVISION OF CITIZENS COMPLAINTS, NEW JERSEY DEPARTMENT OF THE PUBLIC ADVOCATE, TRENTON, NJ

Mr. GLEESON. Good morning. My name is Jack Gleeson. I'm Director of the Division of Citizens Complaints and Dispute Settlement within the Department of the Public Advocate, and the Office of Citizens Complaints basically functions as an ombudsman for New Jersey citizens who are having difficulties with State government agencies.

For a number of years the Department of the Public Advocate has been interested in the issue of availability of basic bank services to people of low and moderate incomes. We have presented 2 years ago to the New Jersey State Legislature supporting basic lifeline, no-frills banking.

[The complete prepared statement of Mr. Gleeson follows:]

87-470 O - 88 - 3

State of New Jersey

DEPARTMENT OF THE PUBLIC ADVOCATE

ALFRED A. SLOCUM
PUBLIC ADVOCATE

CN 850
TRENTON, NEW JERSEY 08625

OLIVER B. QUINN
COUNSEL/CHIEF OF STAFF

TEL. (609) 292-7087

May 18, 1988

Mr. Chairman and Members of the Committee:

Good morning, I am John W. Gleeson, director of the Division of Citizen Complaints and Dispute Settlement. On behalf of Commissioner Alfred A. Slocum, I want to thank you for providing the New Jersey Department of the Public Advocate an opportunity to share with you our concerns about the decreasing availability of basic bank services to moderate and low-income consumers. For several years, New Jersey's Public Advocate has supported efforts at the state level to ensure basic lifeline banking services. We presented testimony to the State Legislature in support of such a policy in 1986.

Over the years, the Public Advocate has received complaints, chiefly through its Office of Citizen Complaints, from citizens facing difficulties in cashing checks. Many of these complaints came from families and individuals who rely on government benefit checks for their basic financial survival.

For example, a Camden County woman went to a local bank to cash her Social Security check. The bank refused to cash it, because she did not have an account at the bank. A bank official suggested that she take her check to the bank where it was issued. The check was drawn on a bank in Birmingham, Alabama.

A woman in Middlesex County had to cash her $436.00 Social Security check at a local check cashing store after being refused by several local banks, because she did not have an account. The State-licensed check casher overcharged her 500% by collecting a fee of $36.00. The correct one-percent fee should have been $6.54.

A Mercer County AFDC recipient was told by officials at the bank that issued her check that she was required to produce two proofs of identification. She could produce only her county welfare photo identification card. She finally had to travel a total of 18 miles to cash her check at a check cashing store.

On the basis of these and other complaints, the Public Advocate's Office of Citizen Complaints decided to conduct a study of the check-cashing practices of low and moderate income recipients of both federal and state government benefit checks.

The purpose of the investigation was four-fold:

First, to determine where recipients of government benefits go to cash their government checks. An analysis of our data indicated that more than half of those surveyed did not cash their checks at banks and one-third of them went to State-licensed check cashing stores. We also learned that the number of checks cashed by licensed check cashers had doubled between 1978 and 1986 from 2.3 million to more than 4 million. The total dollar value of the checks cashed by licensed stores increased by 186 percent over the same period from $367 million in 1978 to more than $1 billion in 1986. The fees collected by licensed check cashers had also increased by 203 percent from $3.3 million in 1978 to more than $10 million in 1986.

The second purpose of our investigation was to ascertain why so many recipients of government benefit checks regularly cash their checks at State-licensed check cashing stores and at unlicensed neighborhood businesses rather than at banks. A large number of those we questioned replied that they were unable to cash their check at a bank unless they had an account at the bank. It should also be noted that most banks will not cash a check for account holders unless there is a balance on deposit equal to the amount of the check the account holder is seeking to cash. When asked directly, 82 percent of the recipients surveyed said they did not have a bank account. Our survey results clearly indicate that the high minimum balance and monthly service charges required by most banks are far beyond the financial reach of most persons in New Jersey on low incomes.

Our third goal was to document whether licensed check cashing stores were operating in compliance with State laws and regulations. Our survey found that half the recipients who cashed their checks at State-licensed stores were charged fees which exceeded the limits set by New Jersey law, with some exceeding the legal limit by as much as 500 percent. Our survey found that customers were overcharged at virtually every check cashing store where interviews were conducted. As a result, a substantial amount of public funds designated for the needy is being diverted to the highly profitable check cashing industry.

Our investigation also determined that many unlicensed community locations throughout the State, from major supermarket chains and retail stores to neighborhood bars and grocery stores, also cash government benefit checks for a fee or other consideration in violation of State law. This unregulated check cashing network provides a basic financial service to thousands of poor people who are turned away by the conventional banking system. The fees or other considerations paid for this service reduce or otherwise skew the purchasing power and discretion of recipients.

It is also important to note that our direct interviews with recipients indicate that they patronize check cashers not only because of the high cost of maintaining a bank account, but also because of the pervasive perception that low income customers are just not welcome at the banks and that local neighborhood bank branches are becoming less and less accessible. In most urban areas, the neighborhood check cashing store has replaced the neighborhood branch bank of years gone by. Because of this perception that they are unwelcome at the banks, low income urban residents are likely to continue to patronize check cashers even should low cost banking become available to them.

Finally, the Public Advocate's survey sought to determine the effectiveness of the New Jersey Department of Banking in monitoring compliance with State law and regulations governing the check cashing industry. It is clear, and the Department of Banking has recognized, that it has not adequately enforced many of the regulations governing the activities of licensed check cashers.

Since the publication of the Public Advocate's report on the check cashing industry, the Department of Banking has initiated a number of actions to improve the effectiveness of their regulatory role. Some of the solutions are managerial and some fiscal. The Public Advocate strongly supports the Department's efforts in both areas.

In summary, the Public Advocate has made the following recommendations for improving the state's regulation of this alternative banking system for the poor. They are designed to ensure that New Jersey residents living on limited incomes and who are effectively barred from the conventional banking system are protected from unscrupulous licensed and unlicensed check cashers.

- Regulations should be amended to require check cashers to provide customers with receipts for all transactions. The receipt should indicate the amount of the check cashed, the fee charged and the cash balance given to the customer. The Department of Banking should conduct audits of these receipts from time to time to determine if overcharging is taking place.

- All licensees should be required to display prominently a sign provided by the Department showing the schedule of maximum fees and examples of charges for typical government benefit check amounts.

- The Department should require by regulation that licensees' annual reports include a breakdown of all government issued benefit checks cashed during the prior year.

- Penalties should be imposed for non-compliance with state regulations and licenses should be revoked in cases of flagrant and persistent violations.

- The Department of Banking, in cooperation with local, state and federal government agencies should encourage the inclusion with all government benefit checks of educational materials in English and Spanish describing check cashing fees and including the name, address and telephone numbers of the Banking Department's Division of Consumer Complaints.

The Department of the Public Advocate realizes that these recommendations, and the others contained in our report, will not resolve the many problems faced by citizens subsisting on government benefits. We do hope, however, that these reforms will help to ensure that the public funds designated to help the most needy citizens in our society are not unduly dissipated by either the conventional or underground financial system.

Let me again express my thanks on behalf of Commissioner Slocum for this opportunity to share our experience with this committee.

Senator PROXMIRE. Thank you, Mr. Gleeson.

Senator Metzenbaum will introduce the last witness on this panel.

Senator METZENBAUM. Mr. Chairman, thank you for giving me the opportunity to do so. This is a very unusual lady, and rather than use my own words about her, let me read you something from the Columbus Dispatch—I won't read all of it—in an article called "Widow Helps Untie Snags in Welfare," they say as follows:

> Being poor is expensive is the motto that molds Margaret Willis' life. As president of the Ohio Welfare Rights Association, Willis often tackles welfare departments head-on untangling the bureaucracies that delays benefit checks and misplaces case files. Willis is 53 years old, a widowed mother of five and a former welfare recipient. She has a paid staff of one, several volunteers and runs a tight ship at the association's office on Long Street. Margaret's association is a grassroots organization in 1966. The association has 19 chapters in Ohio. The State office opened a year ago with a $15,000 grant from Hands-Across-America. I can't do a lot, but I can certainly motivate the young ones coming along, said Willis, who has 13 grandchildren. I'm doing this for my grandchildren. I tell them, you will not be on welfare. You're going to be doctors, lawyers and policemen. You're going to the moon.

I think this is a great article about this lady and I think she's a great lady and doing a wonderful job in Ohio and I'm so happy that she's here with us this morning.

Senator PROXMIRE. Well, that's a beautiful introduction too. Senator Metzenbaum, I'm going to have to leave, unfortunately. Senator Wirth will be here in a few minutes. But meanwhile, I'm going to ask you to chair the hearing until Senator Wirth comes.

Senator METZENBAUM. Thank you, Mr. Chairman.

Mrs. WILLIS. I'm sure honored to be asked to testify, Senator Proxmire, and I'm very grateful to our good active Senator back in Ohio, Senator Metzenbaum.

Senator PROXMIRE. Thank you, Mrs. Willis. I noticed that in that list of distinguished people you didn't mention either Senators—in connection with what your grandchildren are going to be—Senators or bankers.

Mrs. WILLIS. They're in the fourth grade and they're taking science and math and my 11-year-old grandchild came to Washington. He won a trip because of his scientific achievement and I want to see him on the moon one day, but not in no war.

Before you leave, Senator Proxmire, I did want to show you this ID card. Do you mind if I show it for the record because this is evidence I'm going to enter here to show you something. I just want you to take one peak before you leave.

Senator PROXMIRE. Very good.

Senator METZENBAUM. It's pretty good to get the chairman to come to you, Mrs. Willis.

Mrs. WILLIS. That's what I'm teaching my grandchildren, Senator Metzenbaum. I just wanted to enter in the record with my written testimony Ohio's picture ID card and in this picture ID card is what I'm going to explain in my oral testimony as to why the banking institutions in Ohio would not accept that at face value. It has a social security number. It has my face on it. It has my case number, which I'm on Medicaid and food stamps, and it also identifies that it is a valid State of Ohio program specifically from the State auditor's office and so this is what I'm going to be discussing thoroughly about why we have to go to so many problems in Ohio.

Senator PROXMIRE. And it doesn't do you justice, this picture?
Mrs. WILLIS. No, it does not.
Senator METZENBAUM. Please proceed, Mrs. Willis.

MARGARET WILLIS, PRESIDENT, OHIO STATE CONSUMERS EDUCATION ASSOCIATION

Mrs. WILLIS. OK. It's like I said, Senator Proxmire and members of the committee and Senator Metzenbaum especially, I'm very honored to even have my Senator and the Banking Committee have somebody such as me to come before you. This is my first time ever being able to testify before such a prestigious committee.

When I was contacted to do this, I didn't really mind saying yes. I did wait a couple weeks before I said yes because I wanted to let you know that I was indeed involved in that survey that GAO did back in the early part of this year. Some of the statements they made in that survey were basically true but some of them I have to honestly say were half-true.

One of the things I'd like to share with this committee as a low income recipient is that in Summit County specifically the survey alluded to where the banking institutions were not helping the welfare department. Let me just tell you how they got that point.

BANKS DISCRIMINATING AGAINST CLIENTS

First of all, one of our local affiliates in Summit County, the Summit County Welfare Rights Organization, was brought to our attention at a State meeting in the early part of the 1980's that the banking institutions in Summit County were discriminating against clients in banking lines where they were telling recipients that they had a specific line that they would have to go and cash their check, be it a welfare check or be it a government check.

One of the things, since people weren't organized back in Ohio, Senator Metzenbaum, as you very well know, the local chapter affiliate decided that they wanted to do something about it, so what they did was they went down for about 3 weeks and they picketed the bank. That was a hard thing to do and an embarrassing thing to do to some people but sometimes you have to stand up for your rights and that's what happened. So out of that, the county treasurer in that particular county got together with the recipients and developed some kind of attitude with the banking institutions and that's how they got the banking institutions to stop doing what they were exactly doing by discriminating against clients.

I could cite many more personal examples, especially in all of the urban cities in Ohio and most of your rural cities, there's not a day or week go by that somebody don't enter a banking institution and try to get some kind of a check cashed because as you very well know in some parts of our country some checks are staggered. Some people seem to think that all checks are given out on the first of the month, but indeed in Cuyahoga County checks are given out every 2 weeks for some programs.

I would like to also share with you that one of the most major problems is the $25 opening an account. Senator Metzenbaum was right on the mark. We don't have that kind of money. We also do not want to be embarrassed because we happen to have an SSI

check which I receive or an AFDC check or general assistance check. We'd like to walk in the bank just like any other customer and be able to say to the bank or whomever is receiving us is that here we are and when I present my identification card with my check I shouldn't be asked to also give a credit card, which I don't have, or give up a driver's license, which some people don't drive. We should be able to go in that bank just like anybody else. I have personally witnessed people being turned away at banks and I'm happy to tell you I have went to the banker behind the scenes because as a good monitoring person like I am even though I'm handicapped is that the banker knows that we are in the bank now and we're not worried about the security guard because he knows that we're monitoring the bank. Nobody told us to do that because we have a clientele that requires us to find out some answers and that is why we work with Congress and the State of Ohio Department of Human Services, county welfare departments to inform them when the bank is acting up and the banks do act up. It's embarrassing to go before a banking institution and because you're a welfare recipient and you may not have on a nice clean dress or maybe you might not have nice attire or you might have a couple kids with you, to have the banking institution to tell you to get out. It's embarrassing to have the security guard come up and tell you to remove you from the bank without you wanting to go. It is also embarrassing to have a banking institution to say to you when he has his regular customers in there, "You go to one line because you're a welfare recipient or a government check person," and the other population of the bank go to another line. We think that's unconstitutional and discriminatory.

FACTS AND EVIDENCE TO BACK UP CHARGES

We have facts and evidence to back it up. One of the things that we don't want to do is that a lot of people is afraid to come forth because who wants to take on the bank, but when I was asked to come before this committee, I'm willing to tell them in public on the record, under oath if I have to, that indeed they do discriminate against clients in our State, in our counties, and they do make us feel like we are unclean, we're unhealthy. Well, I'm here to tell you that we're alive and well and some of us do take baths and we do keep our bodies and our kids clean, but at the end of the month we just don't happen to have babysitting money so we might have to take a couple of our kids into the bank.

I will have to say for the record, Senator Metzenbaum, sometime we might go in, in hair curlers because if you at the end of the month without nothing to eat the first thing you want to do is try to get you something so that you can go on for the next couple days.

So I would like to go on record strongly in support of Senator Metzenbaum's S. 2110 and I'm here to tell you from our 19 affiliates that we had a statewide meeting and we went on record as a resolution that's coming to Senator Metzenbaum and anybody on the Banking Committee that we in Ohio as clients, which are 220,000 of us on AFDC and 140,000 of us that's on general assistance, that we're here to give Senator Metzenbaum all the troops he

needs to march down here to Washington if necessary and inform the Banking Committee in Ohio that we would like our Senator to be looked upon as somebody that is sensitive, that is caring, that really cares a damn about the government check, whether it's AFDC, general assistance—and he ain't just now started fighting this year. He's been fighting for all these many years since we've known him. So that's about Senator Metzenbaum.

Let's get back on the topic. I also brought evidence as to show you specifically what happens when you go into a supermarket and what happens when you go into a Kroger store. What happens is that there is nothing but the picture there. You walk into the supermarket. You have your welfare check. You take your ID card. You have a picture ID and it's laid down there. Nobody is coming before you and they take $10 off the top and they may go as high as $20, they can go as high as $2—automatically the check is cashed. You have been given two slips and I gave you a copy of the front and back of those slips and in those slips then you are told to move on. Nobody first says that you are charging a certain amount of money. Nobody said to you what the money is for. And so I happen to be the good organized person as I am that I challenged the Kroger and took them on in Ohio and challenged the Super Dupers and took them on, and said to them that I am going to come here today and tell them what they're doing is illegal. I don't mind paying a $1 or $2, but they have to first ask me can they take it out of my check. And unless somebody informs me that they're going to take something off the top of my check or people like me, I think I'm not different than anybody else, I have to watch how I spend my money and I certainly want to give anybody something I'm not supposed to give them to.

Second, I would like to say to you as a committee to Senator Proxmire and Senator Dodd and all of you who asked us to come before you today, Senator Metzenbaum, we do not have those $25 to put in that checking account because one of the things you're going to find out in that population that I gave you, there's a lot of illiteracy in Ohio and all over this Nation and we don't want to have Attorney Ed Meese coming down to us, we'd rather have Theodore Soltz coming down in the spring when they come down. We'd rather have you coming down here because the Attorney General has problems of his own. So we would rather have you get something that's meaningful. We're not saying the banks shouldn't charge some kind of fee. We're certainly not saying—we just want to be treated with dignity and we don't want the banking industry to say that we don't like them as friends because we are just a part of this society as anybody else is.

In our county alone we added up what a welfare check and food stamp program do to the economy across this Nation. We're talking about $4 billion in Franklin County where I live at that the banking institution and grocery stores that seem to think that the poor people keep that money and either go to a landlord or it can go to the electric company and it goes for the groceries and I'm saying that the banking institutions ought to be proud to even want to take on somebody such as the low income population because maybe they won't have so many debtors because we pay our bills. And I'm just saying to you, in all generosity, I hope that you

will not let this die, that you will look at us as people of dignity and that we don't have any paid lobbies, we've just got common sense. We don't have any money. We can't walk the halls of Congress. We can't tell you—what I can tell you back where I come from is that the only thing we've got is common sense and we care and we want you all to care about us.

[The complete prepared statement of Ms. Willis follows:]

TESTIMONY OF MARGARET WILLIS

BEFORE THE SUBCOMMITTEE ON CONSUMER AFFAIRS

MAY 18, 1988

S. 2110

Mr. Chairman, members of the Committee, I am Margaret Willis and I am the Chairperson of the Ohio State Consumers Education Association. This organization is a statewide association, based in Columbus, which represents families and individuals who depend upon public assistance. We have chapters in nineteen (19) Ohio counties including the major urban areas as well as many rural communities.

I am here today asking you to support the approximately 220,000 Ohio families who receive Aid to Families with Dependent Children benefits and the 140,000 individuals receiving state supported General Assistance benefits. I am urging you to adopt legislative requiring the banks and savings and loans to cash checks issued by the federal and state governments to recipient of AFDC and state General Assistance programs.

Members of the Ohio State Consumers Education Association and many other clients of Ohio's human services department run into problems each month trying to cash assistance checks. We either have to go to a bank or savings and loan or go to a private business to cash the check. Either choice presents problems.

When possible, we try to avoid cashing our checks at supermarkets and check cashing services as the fees they charge are large in relation to our incomes. A check cashing fee of $2 to $6 is a lot of money to a mother who has to pay rent, utilities, provide clothing, food and other expenses for herself and her children on $309 a month for a family of three.

The better choice for us is to go to a bank or savings and loan where we can get back $309 in cash in exchange for a check for $309. However, many of us have run into severe problems when we try to cash our checks at banks.

Several years ago, a major problem developed in Summit County (Akron). Recipients of General Assistance were unable to cash their checks at banks because the banks began requiring picture identification cards before a check could be cashed. The Ohio Department of Human Services and the Summit County Department of Human Services recognized our plight and quickly responded by issuing picture identification cards that included our name, social security number and assistance case number. We then thanked the State of Ohio and the county for helping to solve our problem. However, we did not know then that new problems would arise.

Our members as well as other human services clients are now reporting that the banks and savings institutions have presented us with new problems. Many banks now require people to open an account before a check is cashed. However, we can't afford the $25 minimum to open an account and we can't afford the monthly charge. Other banks are saying the state picture I.D. card isn't enough because they now require a driver's license in addition to the humans services identification card. Unfortunately, many of the human services clients do not have driver's licenses. Still other banks make public assistance recipients stand in separate lines.

I am now asking you for help in addressing this problem. Quite simply, I am urging you to pass a law requiring banks and savings and loans to cash federal and state issued checks at no charge. I would not disagree with a requirement that the bank could ask the individual to present a picture identification

card issued by a state or county human services department. However, that picture I.D. card with a Social Security or case number should be considered as sufficient identification. I would also urge you to prohibit discrimination against recipients of assistance by the banks and savings and loans institutions who make us stand in separate lines or other restrictions.

I hope you will respond to this problem. It is hard to understand how one branch of the government can help us meet our needs by providing assistance in the form of a check but when we try to cash this check, we are turned away by financial institutions which are regulated by another branch of the government.

Thank you for your time today. I will be happy to try to answer any questions you may have.

Senator WIRTH. Thank you very much.

I gather, Mr. Ritter, that from the Connecticut experience you would say that the provisions of the legislation introduced by Senator Metzenbaum makes sense and ought to be expanded nationwide, is that correct?

Mr. RITTER. That's correct. We've had no problem.

Senator WIRTH. And Mr. Gleeson, you have that same response from the great State of New Jersey, is that right?

Mr. GLEESON. Yes.

Senator WIRTH. And we all heard Mrs. Willis' very eloquent testimony.

Senator Metzenbaum?

Senator METZENBAUM. No comments.

Senator WIRTH. We thank you all for being with us. Thank you for very helpful testimony and we look forward to working with all of you in the future.

We will now move to the next panel. We have five panelists on the next panel. Mr. Edward Brandon, president and CEO of the National City Corp. in Cleveland; Mr. Alan Heuer, sector executive, Marine Midland Bank of New York, representing the Consumer Bankers Association; Mr. August Zinsser, executive vice president of the First American Bank in Washington, representing the ABA; Miss Peggy Miller, representing the Consumer Federation of America and the American Association of Retired Persons; and Mr. Woodrow McWhorter, president of the Buckhead Group in Roswell, GA

To all of you, we are very pleased to have you here. You are all familiar with the rules of the committee. We will include your statements in full in the record. We would ask each of you to summarize your statement in 5 minutes or less and in front of me is a red and green light with which you're familiar. The green light means continue to go. The red light means that your time has expired. If we could get each of you—we'll just go right through in the order in which I introduced you, starting with you, Mr. Brandon, and then Mr. Heuer, Mr. Zinsser, Miss Miller and Mr. McWhorter, and then we will move to questions from the committee. I thank you all very much for being here.

Mr. Brandon, let's start with you.

STATEMENT OF EDWARD B. BRANDON, PRESIDENT AND CEO, NATIONAL CITY CORP., CLEVELAND, OH

Mr. BRANDON. Thank you, Mr. Chairman.

I am obviously delighted to be here at the invitation I presume of our good Senator, Howard Metzenbaum. The first thing I'd like to say is, Mrs. Willis, you will hear from a representative of BancOhio because we do have a checking account which doesn't require a minimum deposit and we'll let you take advantage of that.

The purpose of my testimony and the purpose of my making this trip up here today was really in response to a conversation I had with Senator Metzenbaum in my office a month or so ago. As he indicated in his opening remarks, we were discussing the issue of the cashing of government, Federal, State and local checks. I guess I feel subjectively that the banking industry has a social obligation

to provide in a prudent and sound way the ability for our citizens, regardless of their status in their economic levels, to have the facility to cash those checks and convert those checks.

I think we need to get together and grope for a method in which that can be done safely and soundly. We have read the Senator's bill, S. 2110. Substantially I would like to in my brief comments just point out the similarities of what our suggestion was which has been submitted in detail rather than read over any prepared remarks.

Senator METZENBAUM. Mr. Brandon, just for purposes of the record, will you state the kind of institution you represent?

Mr. BRANDON. Yes, excuse me. I'm chairman of the National City Corp. We are a $15 billion bank holding company headquartered in Cleveland, OH. We have within our holding company 9 independent banks throughout the State which operate 330 retail banking offices. We have offices within—I think the statistic is—within 2 miles of 80 percent of the population of the State of Ohio and are actually the dominant deposit institution in the State, even though we're not the largest bank holding company in the State in total assets, in deposits within the State we are the largest representative.

Senator METZENBAUM. Thank you.

Mr. BRANDON. I should have read my text, however. I have that in the first paragraph.

Senator METZENBAUM. I know what a substantial bank you are and I just wanted to make it clear in the record that you're not just some little office out in the suburbs but you are a major factor in the Ohio community.

PROBLEMS WITH PROPOSED LEGISLATION

Mr. BRANDON. Well, we do and we have wrestled with this issue, as you well know. We've talked about it substantially. I think we find two issues and two problems with the legislation as proposed, two problems which confront the banking industry and also in a way affect the consumer who is trying to get his check cashing privileges, neither of which are any surprise to the committee. You've done a marvelous job of exploring all of these avenues.

The two issues are obviously the issue of fraud as far as the bank is concerned and the losses sustained in cashing checks with or without proper identification, and the other issue is the congestion provided in our banking facilities. We have in our submitted testimony detailed suggestions on how we would approach those matters. I will not take the time of this committee this morning to go over those in detail. They have been submitted to you.

Basically, we are suggesting a scheme of cycling of the issuance of checks, a scheme which would tie that to the ID card which would be issued by the bank, which would then allow the bank to cash these checks for both their customer base and noncustomers who wish to use our physical facilities for that purpose.

We endorse and encourage the direct deposit medium as a vehicle, and getting back to Mrs. Willis' comments that that doesn't work because they can't afford checking accounts, I think there are checking products that they can afford. I think we maybe have

done not a good job of educating that part of our population to the availability of these products and to the advantages they would offer to them, but I think if we could get the direct deposit somehow encouraged through this legislation, we would avoid an awful lot of the fraud issue, a lot of the alteration issue, a lot of the improper identification and stolen check issue.

I appreciate the opportunity, Howard. Thank you very much for having us here. The red light has come on.

[The complete prepared statement of Mr. Brandon follows:]

87-470 O - 88 - 4

STATEMENT BY EDWARD B. BRANDON
BEFORE THE SUB-COMMITTEE ON CONSUMER AFFAIRS
May 18, 1988

Thank you, Mr. Chairman. I am Edward B. Brandon, Chairman, President, and Chief Executive Officer of National City Corporation, a 14.9 billion dollar bank holding company with 330 offices throughout the State of Ohio and headquartered in Cleveland. Joining me at the table this morning are Mr. Willis I. Else, Senior Vice President, and Mr. Allen Waddle, Vice President, of National City Corporation.

Mr. Chairman, I know that you have devoted considerable attention to the issue of availability and affordability of financial services to all segments of the public. I am here today to offer our thoughts on how to provide fair access to check cashing services for recipients of recurring government payments.

I do appear before the sub-committee with mixed emotions, however. Whereas I believe our proposed solution to the perceived problem of cashing government checks would work better than any other solution of which we are aware, we still see no substantial evidence which indicates that there is a problem sufficient to warrant federal legislation. I therefore think it would be appropriate for this sub-committee to defer any action on the matter until the study of cashing Treasury checks being conducted by the General Accounting Office is completed.

Our "fair access to government check cashing" proposal is presented in response to an invitation to submit such a proposal which I and several of my associates at National City Corporation (NCC) received from Senator Howard Metzenbaum of Ohio earlier this year.

Shortly after extending that invitation, Senator Metzenbaum introduced Senate Bill 2110, the "Fair Access to Check Cashing Act," which was referred to the Committee on Banking, Housing, and Urban Affairs and to this Sub-Committee on Consumer Affairs for consideration. As you know, his proposed legislation would require banks and savings and loan associations to cash U. S. Government checks free of charge once a person obtains an identification card from the institution where he or she plans to cash the check. The institution would be able to assess a one-time charge for the ID card.

Our proposal for a Fair Access to Government Check Cashing Act, which follows, builds on the concept embodied in the Senator's bill. It represents National City Corporation's effort to improve the provisions of that bill by proposing a method for cashing government checks which would minimize the concerns

expressed by depository financial institutions and other check cashing facilities relative to the Senator's bill. Whereas we are confident that our proposal could work well in Ohio, there may be reasons, unknown to us, why it would not work in other states. We therefore suggest that, if you find some merit in our proposal, you should hear testimony from other institutions concerning its viability.

PROBLEMS ADDRESSED BY THE NCC PROPOSAL

To develop our proposal, we first examined the problems currently experienced by the individuals who receive government checks and attempt to cash these checks, and then we considered the problems experienced by those businesses which regularly cash such checks.

Problems Encountered by Individuals. Two major complaints (other than the complaint of inadequacy of the dollar amount) are heard from constituents who receive government checks: (1) if they do not have an account relationship with a depository financial institution, they have great difficulty cashing these checks at any place other than a check cashing facility which charges a high fee for this service, and (2) they bear relatively high exposure to check theft -- especially theft from a mailbox or by another member of the family.

Problems Encountered by Check Cashing Facilities. The primary reasons for the reluctance of depository institutions to cash these checks, the sources of their complaints, and the reasons for the high fee imposed by check cashing facilities are that these institutions experience (1) high losses due to check fraud, and (2) overcrowding at their offices on payday. The check fraud losses are of three general types: (a) forged endorsements, usually applied to stolen checks or to checks issued to separated, divorced, or deceased persons, (b) checks which have been altered, usually in payee or amount, and (c) counterfeit checks. The overcrowding situation is primarily due to the fact that most federal and state benefit checks are issued during the first four business days of each month and, of course, are cashed on the day of receipt or on the following banking day.

Elements of a Solution. To find a solution to these problems, we studied each problem individually.

1) Difficulty Cashing Checks at Low Cost. Clearly, the solution to this problem (if it is a problem) is either to induce consumers to establish banking relationships or to force certain businesses to cash government checks at low cost to the consumer despite the risk of loss.

2) Check Theft. The optimal solution to this problem is to

eliminate the possibility of check theft through the "direct deposit" program offered by many governmental units.

3) Forged Endorsements. Obviously, the "direct deposit" program of many governmental units is an ultimate solution to this problem.

4) Altered Checks. Again, the "direct deposit" program of many governmental units is an ideal solution to this problem.

5) Counterfeit Checks. Similarly, the "direct deposit" program of many governmental units is an ideal solution to this problem.

6) Overcrowding on Paydays. This is a current problem for our banks and their customers which would be aggrevated by any proposal which encourages more people to cash checks at banks on the first four business days of each month. (As you know, most government checks are issued and cashed or deposited on those four days.) For example, 33 of our Cleveland bank's 85 branch offices are staffed to capacity, i.e., there's no space available for more tellers, on at least two of those first four days of each month, and yet it would be uneconomic if not impossible for us to expand the size of those 33 branches just so we could accommodate people desiring to cash government checks on those four days. The obvious solution to this problem is to cycle the issue of government checks (especially benefit checks) evenly among the days of each month and to spread the check cashing activity across as many businesses as possible.

It is these elements which comprise our proposed solution which I shall call the NCC Proposal.

FEATURES OF THE NCC PROPOSAL

Institutions Subject to the Act. The NCC proposal for a Fair Access to Government Check Cashing Act requires all consumer-oriented places of business (such as banks, savings and loan associations, and credit unions -- those institutions subject to Regulation D of the Federal Reserve System -- and check cashing facilities of all types) which cashed or accepted for deposit an average of more than 100 federal and state government checks in any one location of business during the previous month, to cash government checks at a fee no greater than the smallest check cashing fee offered to any customer of that place of business providing the person desiring to cash a check presents to the place of business any identification card issued for check-cashing purposes by that place of business.

In other words, recipients of government checks would be charged the lowest check cashing fee available to anyone cashing checks at that place of business. If the place of business offered multiple check cashing fee schedules, the fee schedule which yields the smallest dollar amount of charge would have to be used.

The net effect of this provision would be that cashing of checks would be free at most depository institutions since most of them do not now charge depositors for check cashing, nor is it likely that they will impose such a charge in the future. Yet the proposal would permit check cashing facilities, which often must rely on fees to stay in business, to continue to impose fees for cashing government checks.

Identification (ID) Cards. Any place of business subject to the Act would have the right to issue and require the presentation of an identification card of its own design to each individual desiring to gain the benefits of this Act. Such card would be used to properly identify the individual at the time of presentment of a government check. The place of business would be permitted to charge a one-time fee for each card issued, but this fee could not exceed an amount determined by the Federal Reserve Board to be a reasonable recovery of costs to prepare and issue each card.

To obtain an ID card, the individual requesting government check cashing privileges would be required to present means of identification suitable to the place of business, but these suitable means could not be more stringent, i.e., could not require more identification, than that required for regular customer check cashing except that the individual would be required to present (1) suitable proof that he/she is eligible to receive checks from a government program (this proof could consist of producing a check from such program), (2) his/her social security number, and (3) proof of date of birth (such as a driver's license, birth certificate, or passport). As noted below, the person's name, the day of the month of a person's birth (not necessarily the full date of birth), and the person's signature would be recorded on the ID card.

Cycled Payments. Since making this program available to all constituents at a single specified date would be likely to create extreme overcrowding of certain depository institution branches, thereby making check cashing difficult and creating serious problems for customers desiring to conduct other business, this proposal provides for cycled payments of benefit checks issued by federal, state, local governments and agencies.

In recognition of the fact that governments and agencies generally do not currently use payment systems which have the capability of cycling the issuance of checks, this provision

would not be made mandatory for any government agency, but rather would encourage them to add this capability when money and manpower are available to convert single-issuance-date systems to multiple-issue-date systems.

When a government/agency does agree to cycle its payments in accordance with this Act, it would agree to date each check on the day of the month of the payee's birth, or, if that date were to fall on a Saturday, Sunday or legal holiday, it would date the check on the previous business day, i.e., a day other than a Saturday, Sunday or legal holiday. For example, a mother eligible for AFDC payments who was born on September 5, 1968, would receive checks dated on the 5th of each month except in those months when the 5th fell on a Saturday, Sunday or Labor Day in which case the date of the previous Friday would be used. Persons born on the 29th, 30th, and 31st of any month would receive checks dated on the 28th unless this date fell on a Saturday, Sunday or holiday.

Although the Act would not specify how a government agency is to phase in a cycled payment program, most would probably decide to announce a single month for conversion to the program and would issue partial payment checks calculated on a per diem basis as interim checks between the present payment program and the cycled payment program. However, some governments/agencies might decide to place only new beneficiaries on the cycled payment program and to leave all current beneficiaries on the present program. Admittedly, no government/agency will like the difficulties which will be experienced during the transition period, but once the conversion is completed, both the government/agency and its constituents should benefit from cycled payments. Peaks and valleys in the government or agency's work load will have been minimized which should ease staffing problems, and constituents will not have to vie for parking space and suffer the long queues at the bank which are prevalent under the current payment program.

Benefits would accrue to others as well. For example, all businesses which cash government checks currently experience increased risk during the period of government check cashing activity due to the significantly larger amounts of cash they must keep on hand during this period. These businesses often find it necessary to increase their staffing during this period as well. Costs associated with these activities could be reduced.

It's my understanding that the U.S. Postal Service experiences significant theft of government checks from neighborhood postal storage boxes due in part to the fact that most of the checks are mailed within the same short period of time making theft from the mail very productive during that period. To the extent that payments were cycled, each theft would be much less

productive. Similarly, the cycling of government payments would frustrate theft from individual mailboxes and reduce these losses as well.

Cashing Checks. Places of business subject to this Act would be required to cash each government check presented by the payee (except state agency and local government checks issued in another state than the one where the place of business is located) along with the ID card (if any) previously issued to the payee by the place of business only if the date on the check coincided with the payee's day of birth (as indicated on the ID card), and limited only by any cash limit imposed by the place of business on cashed checks or cash withdrawals generally. If the check has been endorsed prior to presentment, the place of business may require that a second endorsement be applied to the check in the presence of an employee of that place of business so that the signature may be compared with the signature on the ID card. If the signatures do not appear to have been written by the same person, or if the place of business has reason to believe that the check presented is either counterfeit or altered, or if the check is of stale date as specified in Title X of the Competitive Equality Banking Act and accompanying Treasury regulations, it may refuse to cash such check. The payee may then return the check to the issuing agency along with the written reason for refusal of encashment, requesting that the agency either issue a replacement check or certify the check being returned. Such certification would be exhibited by placing a certified stamp imprint on the face of the check (similar to a bank certified check). By such certification, the government agency could not refuse to pay the check upon presentment for any reason other than forgery of endorsement.

Direct Deposit Option. Although the language we envision for the Fair Access to Government Check Cashing Act would be silent on the subject, it should be remembered that depository financial institutions already accept government payments for direct deposit to customers' deposit accounts. I believe our card-issuing proposal for check cashing would encourage most depository institutions to offer an attractive deposit account package to those people requesting government check cashing privileges on the condition that those individuals permit their government payments to be credited directly to their deposit accounts. To the extent that people accepted this offer, the depository institution could avoid issuing cards and cashing checks monthly. Certainly, this would give us increased incentive to "push" direct deposit programs offered by governments.

COMPLIANCE

If a place of business subject to this Act fails, in any way, to comply with the provisions of this Act or any regulation

adopted pursuant to the Act, it would be liable, up to $1,000 for any actual damage sustained by any one person as a result of this failure to comply. In the case of a class action, the place of business could be held liable for amounts up to the lesser of $500,000 or one percent of the net worth of the place of business. Payees of government checks who fail to meet the requirements of this Act would forfeit their rights to cash government checks under the provisions of the Act. A government agency which cyles its payments, but fails to reissue or certify checks as required by the Act, would be subject to a United States district court (or any other court of competent jurisdiction) order to comply with the provisions of the Act or any conforming rule, regulation or interpretation thereof upon request by any payee of a government check.

ADVANTAGES AND DISADVANTAGES OF THE NCC PROPOSAL

Advantages. This proposal clearly solves many of the problems cited in complaints received from both constituents and places of business.

Cashing of government checks would be free at virtually all depository institutions, and yet it would remain possible to cash these checks at check cashing facilities which charge a fee. To the extent that constituents elect the option of opening a direct deposit account with a depository institution, the problem of stolen checks will have been eliminated and the government's transaction cost of making payments will have been minimized. This problem will also be ameliorated to the extent that ID cards are required for cashing of government checks.

Losses caused by check fraud should be materially reduced. By broadening the base of places of business which must offer to cash government checks at their lowest fee, availability of free or low-cost check cashing will be substantially increased. This large base of places of business as well as the cycling of issuance of government checks should minimize the overcrowding problem at all places of business on all days of each month. The program has been designed to encourage both federal and state government agencies to cycle their payments so that their constituents can take advantage of this check-cashing program. The cycling of check issuance should also facilitate level staffing of government agencies and reduce theft loss and increased costs incurred by many businesses which cash government checks.

Disadvantages. This proposal does not entirely eliminate the stolen check and check fraud problems, nor will it eliminate all queues at depository institutions. As governmental agencies elect to take advantage of this program for the benefit of their

constituents, they will find it necessary to experience the problems and expense of converting from one system of payments to another.

Mr. Chairman, I thank you for the opportunity to appear before you today to present our thoughts on a check cashing service for recipients of government checks in our market which would be consistent with safe and sound business practices.

May 13, 1988

Senator WIRTH. Mr. Brandon, thank you very much and your clarity and care with the red light is an example that would be welcome in the hall of the U.S. Senate. We thank you very much.

Mr. Heuer.

STATEMENT OF ALAN HEUER, SECTOR EXECUTIVE, MARINE MIDLAND BANK, N.A., NEW YORK; REPRESENTING THE CONSUMER BANKERS ASSOCIATION.

Mr. HEUER. Thank you, Senator Wirth and Senator Metzenbaum. I am Alan Heuer and, as was mentioned, I am sector executive of Marine Midland Bank headquartered in Buffalo, NY.

I am here today testifying as a representative of the Consumers Bankers Association where I currently serve as chairman of the Government Relations Council. I might add, in my role at Marine Midland, amongst other things, I am responsible for the branch banking organization which is some 325 branches from Niagara Falls to the tip of Long Island, so this is a subject near and dear to me in my role at Marine Midland.

I would like to say that the member institutions of the Consumers Bankers Association understand Senator Metzenbaum's desire to improve access to check cashing services for elderly, low income and other needy individuals. In fact, CBA's concern led to the establishment 4 years ago of CBA's basic banking task force which was designed to explore ideas for providing such services.

The CBA is opposed to S. 2110 for several reasons. While we're committed to improving access to a broad range of banking services, we are convinced that S. 2110 would not achieve this goal and would in fact create more problems than it would solve.

PROPOSED BILL WOULD CREATE OPERATIONAL PROBLEMS

Enactment of S. 2110 would create significant operational problems for many depository institutions and would greatly increase the losses that banks incur from cashing fraudulent or stolen government checks.

In addition to these two major concerns, we believe that S. 2110 amounts to legislative overkill, in that the proposed solution far outstrips the magnitude of the problem. Let me briefly explain this last point and then address the two major areas of concern.

Our information indicates that annually there are approximately 8 billion government checks in circulation in the United States. This number constitutes 20 percent of total U.S. check volume and it includes the U.S. Treasury, State and municipal checks. S. 2110 would apply to all 8 billion of these checks. By far, the vast majority are received by individuals and businesses having access to banking services. In other words, S. 2110 would require that depository institutions serve all of these people free of charge and leave them open to fraud schemes involving any kind of government check without adequately targeting the truly needy.

Currently, individuals who receive government checks have a number of options for cashing them. The majority of the recipients of these checks have regular checking accounts at banks. In fact, according to the January 1988 issue of Consumer Reports, something over 80 percent of all American adults have bank accounts.

Second, according to a recent CBA survey, more than 50 percent of our member banks across the country currently offer lifeline or basic banking accounts. As you know, these are specially designed deposit accounts for full basic banking needs at no or minimal cost to the consumer.

In addition to check cashing for customers with regular accounts or lifeline accounts, many of our members voluntarily cash checks for noncustomers.

Finally, in addition to traditional depository institutions many individuals who seek to cash checks utilize nondepository check cashing companies. These check cashers have proliferated throughout the country and offer a viable alternative to banks. They are highly regulated in some States such as New York where we operate and unregulated in others such as Ohio. Our point is that a number of options for cashing checks currently exist. For those individuals for whom none of these options are viable, a more focused solution than S. 2110 must be found.

The operational problems that S. 2110 would present for banks are enormous. It's difficult to ascertain exactly how much it costs a given institution to cash and process a check. The survey we did of our members has given us a fairly wide range with the average cost falling between $2 and $2.50 per check. Now it's apparent with the number of checks we're talking about and these kinds of costs that the operational expense of being required to cash checks free of charge for an unpredictable number of noncustomers would be significant.

In addition to costs, S. 2110 presents a number of logistical problems. As you know, many of the government checks are issued at the beginning of the month and while some banks would be able to employ part-time personnel to service the influx of bank customer check cashers, others would have to choose between adding part-time employees at greater cost or providing inadequate service to everyone. This would be especially true for banks or branches of banks located near military or other government facilities and those of low and moderate income neighborhoods. Thus, S. 2110 may have the unintended result of reducing the overall quality of service in the very areas it's designed to serve.

Indeed, the National Bankers Association, a trade association representing the nation's minority banks, opposes S. 2110 partly for this reason. In a letter submitted to CBA for inclusion in our statement, NBA's President, John Kelley, states:

> The National Bankers Association is opposed to any provision requiring depository institutions to cash any check issued by the U.S. Government, any State, any unit of local government, or any agency thereof for any noncustomer. Our opposition to such a provision is the result of the experience of minority financial institutions in cashing such checks. That experience tells us that the fraud and operational costs of such a practice would be ruinous to the minority financial institutions of this Nation.

FRAUDULENT OR STOLEN GOVERNMENT CHECKS ARE BIG BUSINESS

Even with picture perfect identification cards, the potential for massive fraud losses loom large. Under S. 2110 banks would be required—I'm sorry, I just noticed the red light—because of the concerns I've referenced, the CBA members oppose S. 2110. It would

most likely oppose any other legislative effort to mandate that depository institutions cash government checks for noncustomers. We believe that S. 2110 represents an inappropriate solution to the problem of improving access to check cashing services for the disadvantaged.

We would welcome the opportunity to explore alternative ways of improving access and those possibilities include the government guarantee of all government issued checks or having check cashing services available at post offices or other government offices. State and Federal regulation of the check cashing industry should also be considered.

I thank you for providing the CBA with this opportunity to testify and I apologize for going over my time.

[The complete prepared statement of Mr. Heuer follows:]

STATEMENT OF
ALAN HEUER ON BEHALF OF THE
CONSUMER BANKERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS
OF THE
BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
UNITED STATES SENATE

May 18, 1988

Introduction

Mr. Chairman, members of the Subcommittee, I am Alan Heuer, Sector Executive of Marine Midland Bank, N.A. of New York. I am appearing today on behalf of the Consumer Bankers Association (CBA)

The member institutions of the Consumer Bankers Association understand Senator Metzenbaum's desire to improve access to check cashing services for elderly, low income and other needy individuals. In fact, CBA has long been interested in the challenge of making banking services more universally accessible. Four years ago, CBA established a "Basic Banking Task Force", which was designed to explore ideas for providing such services. We have also conducted a survey of our members regarding basic banking services, and have found that an increasing number of banks and savings and loans, more than 50%, are offering lifeline or basic banking transaction accounts. Over the last few months, CBA has worked with the General Accounting Office to help it ascertain the nature and scope of any problem that may exist in this area and we are eagerly anticipating the results of the GAO study. While we believe that S. 2110 as currently drafted suffers from some major flaws, we welcome the opportunity to work with Senator Metzenbaum and other concerned members of Congress on these issues.

* The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 700 federally insured banks, savings and loans and credit unions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

Scope of Problem

Until the GAO study is complete, we cannot know for certain whether there is a severe problem. However, we suspect that access to check cashing is probably less of a problem than it would seem at first glance. Currently, recipients of Government checks have four methods of turning their funds into cash:

First, most recipients of government checks have regular checking accounts. It is important to recognize that government checks are in the normal course made payable to contractors, vendors, civilian employees, members of the military, former civilian employees, veterans, and taxpayers entitled to tax refunds, to name just a few. The overwhelming majority of these individuals have regular checking accounts and have no need for the protections of S. 2110. (Indeed, according to the January 1988 issue of Consumer Reports, 80% of all adults in the U.S. have bank accounts.) As it is presently drafted, however, S. 2110 would require free cashing of checks for these persons.

Second, our information shows that a majority of the commercial banks in the country currently offer lifeline banking services to the public -- specially designed deposit accounts that fill basic needs at low or no cost to the consumer. The terms of these accounts vary from bank to bank on the basis of each institution's internal costs and its perception of the needs of its community.

In addition to check-cashing for customers with regular or lifeline checking accounts, many of our members voluntarily cash government checks for non-customers. A figure used by the Consumer Federation of America suggests that 28% of the country's banks and savings and loan associations, many with multiple offices, currently cash such checks for non-customers. This would translate into almost 4,800 institutions, and many more offices and branches, that provide this service.

Finally, an option that is frequently the choice of consumers, are the non-depository check cashing companies that have proliferated throughout the country and are regulated by many states. Possibly, part of Senator Metzenbaum's perception that a problem exists with respect to government check-cashing arises from the fact that the State of Ohio does not regulate such entities.

These businesses provide a needed service to consumers. They are often located in low or moderate income neighborhoods where small independent banks or branches of large banks cannot survive. However, the check cashing industry could be more tightly regulated than is currently the case in many states. Banks are highly regulated - the check

cashing industry might be as well. In New York, check cashing is regulated by the State Department of Banking. Fees are limited to 3/4 of 1% of the face value of a check. Annually, New York check-cashers handle more than 18 million checks totalling over $5 billion. The check cashing industry is thus a significant factor in the cashing of government checks.

The city of New York has been an innovator in seeking ways to reduce losses from fraud and theft, both to banks and to the recipients of government checks. Through an electronic payment funds transfer system, in connection with a New York City bank, they yearly handle over 8 million welfare transactions providing over $1.6 billion of benefits. This system reduces fraud and government costs and delivers needed services for reasonable fees. It also benefits elderly and disabled people who find it difficult to make a trip to the bank to deposit or cash a check.

Legislation patterned on the New York experience might well provide the optimal solution to any problems that exist with unregulated check-cashers.

Concerns Regarding Current Draft of S. 2110

Overbreadth. The Consumer Bankers Association hopes to play a constructive role in helping to determine whether legislation is required and, if so, in fashioning legislation properly tailored to the problem at hand. Nevertheless, we must admit that we have major philosophical and practical concerns regarding S. 2110 as it is currently drafted. We have hinted at some of these concerns above. Our information indicates that approximately 8 billion government checks, constituting 20% of total check volume, are written annually. As currently drafted, all 8 billion of these checks would be covered by S. 2110, and would include the U.S. Treasury, state governments, cities, towns and villages, public utilities, highway departments, housing authorities, hospitals, universities and colleges and motor vehicle bureaus, among others. The costs of depositing all these checks are huge; the costs of cashing these checks would be astronomical. U.S. Treasury payments alone total 700 million annually. Of these, between 500-525 million payments are made by check and the rest are direct deposit.

Operational problems

It costs money for a bank or savings and loan to cash a check, whether for a customer or a non-customer. A number of factors must be taken into consideration when attempting to quantify the costs to a depository institution for providing this service.

It is difficult to ascertain precisely how much it costs a given institution to cash and process a check (and costs vary from institution to institution and city to city). In computing this cost, a bank must include in its calculations all branch operating expense items, systems-related expenses, the salaries of tellers and other personnel and services such as check processing and check reconcilement. An informal survey of our members has given us a range of between $.60 and $3.50 as the estimated cost of cashing a single check, with the average cost estimate falling between $2.00 and $2.50. It is apparent from these estimates that apart from the separate and equally important issue of potential fraud losses from S. 2110, the sheer operational expense of being required to cash, free of charge, checks for an unpredictable number of non-customers will be significant. The fact of the matter is, excluding fraud, this bill will cost the banking industry a great deal of money. It is important to point out that even the highly regulated check cashing industry in New York State is allowed to charge a fee for this service. If they were not permitted to do so, they would of course, go out of business.

In addition to cost, S. 2110 presents a number of logistical problems. Near the beginning of each month substantial numbers of non-customers would come to depository institutions in order to cash government checks. Banks and savings and loan associations will in many cases need to arrange for additional tellers and cash on hand, and thus additional armored cars and bonded messengers. These services and costs will vary from bank to bank and city to city, depending, among other things, on the availability of competent and trust-worthy part-time personnel, the ability of the institution to use "excess" personnel from other areas, the adequacy of vault space and teller stations and the number and dollar amounts of checks presented.

While some banks will be able to employ part-time personnel to service the influx of non-customer check-cashers at the beginning of each month, others will have to choose between adding full-time employees, at greater cost, or providing inadequate service. Many of CBA's institutions voiced concern that longer lines on certain days of the month and the increased volume of transactions would force a decrease in service to regular customers. This would be especially true for banks or branches located near military or other government facilities and those in low and moderate income neighborhoods. Thus, S. 2110 may have the anomalous result of reducing the overall quality of service in the very areas it is designed to serve.

Indeed, the National Bankers Association, a trade association representing the nation's minority owned banks, opposes S. 2110 partly for this reason. In a letter submitted to CBA for inclusion in our statement, NBA's President John Kelly

states: "The National Bankers Association is opposed to any provision requiring depository institutions to cash any check issued by the U.S. government, any state, any unit of local government, or any agency thereof...for any non-customer. Our opposition to such a provision is the result of the experience of minority financial institutions in cashing such checks. That experience tells us that the fraud and operational cost of such a practice would be ruinous to the minority financial institutions of this nation." The entire text of this letter appears at the end of our written statement.

To illustrate the potential impact on small institutions, we would like to cite the experience of a small commercial bank in Florida which has in the past voluntarily cashed government checks for non-customers. Last year on one day, despite having set aside 5-1/2% of its total deposit funds in its vault as a non-earning asset, it ran out of cash, which had to be transported from other institutions. Another day, 1,500 of 1,700 persons who appeared at its teller windows were non-customers cashing government checks.

Problems with Identification and Registration System

A further operational burden would be placed on depository institutions by the photo identification requirements outlined in S. 2110. Banks and savings institutions have virtually no experience in issuing such cards and will typically not be able to issue them in the large volumes needed to maximize efficiency.

One of our members, a major Eastern bank, previously experimented with photographic identification cards in connection with its credit card, line of credit and check cashing programs. The institution found the cards to be extremely expensive to produce in light of the manual handling required to place the photograph in the card. The cards were not adequately tamper-proof and had to be replaced in the event of a change in the customer's name, address, marital status or account number. Accordingly, the experiment was abandoned.

Another member institution, a money center commercial bank, estimated that the costs to rent or purchase camera equipment, allocate floor space and train personnel and produce the identity cards would be approximately $35.00 for each card. While Senator Metzenbaum's bill allows depository institutions to "assess a charge for issuing an identification card, in an amount not in excess of the actual cost incurred in processing the application and issuing the card", we would suggest that $35.00 is much more than most low income people can afford, and much less than the cost of a basic banking account. In addition to the costs of implementing such a system, CBA has real concerns about its

effectiveness in thwarting fraud, another major area of concern.

Likelihood of Fraud and Other Credit Losses

Fraudulent or stolen government checks are big business. Even with picture-perfect identification cards, the prospects of massive fraud losses resulting from S. 2110 loom large. A legitimate i.d. provides no protection against a stolen and altered or fraudulent check. It is no secret that provisions of the recently enacted Expedited Funds Availability Act requiring next business day crediting of government checks for customers with deposit accounts have provoked a great deal of anxiety in the banking industry concerning the likelihood of fraud losses.

Indeed, the Chairman of the Federal Reserve Board has requested Congress to amend the Expedited Funds Availability Act in order to reduce this type of risk. The Federal Reserve Board's proposal would amend the Act to authorize the Board to establish regulations allowing banks (i) to make funds in excess of $5,000 available at some point after the next business day and (ii) to delay the availability of funds in the event they have reasonable cause to believe that a check is uncollectible. In supporting these amendments, the Federal Reserve Board stated: "We are aware of a number of cases of this type of check fraud. Further, we believe that forgery of these types of checks would not be difficult."

At the same time as the Federal Reserve Board is expressing concern about the risk of fraud under the Expedited Funds Availability Act, S. 2110 would impose substantially greater risks. Banks would be required to cash checks immediately under S. 2110 and would accordingly not have any opportunity, no matter how short, to ascertain the validity of the item. Criminals passing bad checks would not need to return to the institution and risk the increased likelihood of apprehension. Moreover, banks will be dealing with non-customers under S. 2110 and will consequently not have the protections inherent in a continuing customer relationship.

Finally, the Expedited Funds Availability Act only requires banks to provide new customers with $5,000 in cash on a next business day basis. S. 2110 contains no such limitation. Under threat of a $100 penalty, liability for attorneys' fees and a possible class action or cease and desist proceeding, banks and savings institutions would be obligated to make unlimited amounts of cash available without delay to people with whom they have no existing relationship. We think that S. 2110, as currently drafted, would offer organized crime and petty criminals an irresistible opportunity to pass counterfeit, forged and stolen checks in unprecedented numbers and amounts. In addition, because

banks will be required to have substantially greater amounts of cash on hand at the beginning of each month, robbery losses may also increase.

These concerns are not alarmist. Even in the absence of legislation requiring check-cashing for non-customers or expedited funds availability, and despite procedures designed to minimize fraud losses, at least two of our member institutions reported losses approximating $1 million last year on fraudulent U.S. Government checks cashed for customers. According to one bank the majority of these checks were presented by survivors cashing the benefits checks of deceased family members.

Fraud does not constitute the only credit risk in cashing government checks. Like other checks, government checks are occasionally stopped or dishonored for a variety of reasons. Under S. 2110 a bank cannot wait to ascertain whether a check will clear prior to cashing it. Thus, a bank's only recourse under S. 2110 would be to attempt to collect the amount from a person who does not have a customer relationship with the institution and who will in many cases be judgment-proof. A total loss will generally result.

Conclusions

Because of the concerns outlined above, CBA and its members oppose S. 2110 and would most likely oppose any other legislative efforts to mandate that depository institutions cash government checks for non-customers. We believe that this is an inappropriate solution to the problem of improving access to check cashing services for the disadvantaged. As we stated earlier, the magnitude of this problem is still unclear.

Many questions remain concerning both the feasibility of and the need for mandatory cashing of government checks. These hearings, together with the conclusion of the GAO study, will go a long way toward answering these questions.

CBA welcomes the opportunity to explore alternative ways of improving access to check cashing services for people, while protecting banks and savings and loans from fraud and other losses that would be inevitable if S. 2110 were enacted.

Possibilities include having the government guarantee all government-issued checks, establishing more extensive direct deposit networks for such checks and Federal and state regulation of the check cashing industry.

Check cashing at post offices or other government offices should be evaluated. (Post offices serve as an arm of the government and are located in convenient locations throughout

the country. In addition, they are used to handling large amounts of cash, securities and other valuables.)

In the event the general current thrust of S. 2110 is retained (i.e., requiring banks and savings institutions to cash government checks), we think a number of changes are necessary. First and foremost, the concept that banks and savings and loan associations should be required to provide this service free should be discarded in light of the competitive nature of the industry and the high costs of providing this service. All costs involved in cashing government checks for non-customers, plus a reasonable profit, should be recovered from consumers using such services and/or the government. If a judgment is reached that honest consumers cashing government checks should not have to pay for fraud losses, then the government--not institutions that can do nothing to eliminate the risk--should bear the loss. We understand that the State of Connecticut has recently adopted legislation containing such indemnity provisions.

We greatly appreciate the opportunity you have afforded us to offer our views on this subject.

NATIONAL BANKERS ASSOCIATION

May 12, 1988

Statement given 5/12/88 to B. Munson, CBA 276-1750

RE: Title VII of S. 790 (now HR 27): "The Fair Access to Check Cashing Act"

"The National Bankers Association is opposed to any provision requiring depository institutions to cash any check issued by the US government, any state, any unit of local government, or any agency thereof...for any non-customer. Our opposition to such a provision is the result of the experience of minority financial institutions in cashing such checks. That experience tells us that the fraud and operational cost of such a practice would be ruinous to the minority financial institutions of this nation."

John P. Kelly, Jr.
President

122 C Street, Northwest, Washington, D.C. 20001 (202) 783-3200

Senator WIRTH. Thank you, Mr. Heuer.
Mr. Zinsser.

STATEMENT OF AUGUST ZINSSER III, EXECUTIVE VICE PRESIDENT, FIRST AMERICAN BANK, WASHINGTON, DC; REPRESENTING THE AMERICAN BANKERS ASSOCIATION

Mr. ZINSSER. Mr. Chairman, my name is August "Peter" Zinsser III, executive vice president of First American Bank in Washington, DC. I am also a member of the branch administration executive committee of the American Bankers Association.

Let me state at the outset that we are very sensitive to the problems which have led to the solutions proposed by this legislation. We are, however, concerned that the solutions proposed create other problems and may impose risks on the banking industry by requiring in too many cases that we assume the good faith and proper identity of individuals presenting checks drawn on government entities.

We also need to recognize that excellent alternative solutions to the check cashing problem are in many cases now available, while others are emerging. Also, we need to be wary of a single mandated national "solution" which may not take into account particular needs of particular communities.

The Association is interested in working with Congress to ease any problems recipients of government checks may encounter in cashing those checks. Indeed, we can identify some promising new approaches to financial products which simplify the delivery of government payments. Electronic payments through direct deposit programs or programs which provide access to benefits through automated teller machines are examples.

However, mandating that banks cash checks for noncustomers, as this legislation does, presents very serious exposure in terms of costs and may in fact prove counterproductive to providing alternative financial services to low income individuals.

LEGISLATIVE SOLUTION IS PREMATURE

Let me summarize what we believe to be the major points contained in our submitted statement:

First. Generally, we believe that this legislative solution is premature, inappropriate and unfair to depository institutions.

Second. The provisions of this legislation would facilitate check fraud schemes and, as a result, potentially increase fraud losses from an already high level. By prohibiting the bank's prerogative to control the cashing of noncustomer checks, the legislation eliminates a powerful deterrent to check fraud and also limits the bank's ability to protect itself.

Third. The legislation imposes on banks the substantial administrative cost of providing services without compensation.

Fourth. Loading on an expensive "free" check cashing service may ultimately prove to be a critical factor in the survival of many branches, particularly in low income areas where there tends to be a high volume of government assistance recipients and where these recipients most often do not hold deposit accounts. In a deregulated environment in which profits are not assured and the financial via-

bility of depository institutions demands more attention and effort than ever before. The high expense and high risks associated with the proposed legislation impose major economic burdens which may threaten the safety and soundness of some banks. These administrative costs, added to the potential fraud losses, are particularly relevant to the 50 percent of branches already classified as potentially unprofitable.

Alternative delivery and access systems are already available, and others in the process of development and experimentation appear very promising. These alternatives offer convenience, safety, and cost efficiency. Further, any single, nationally mandated response may be inappropriate to individual community situations. Mandating check cashing will inhibit development of these alternative systems to the detriment of the recipients and the Federal and State governments.

Thank you, Mr. Chairman, for allowing me the opportunity to present the views of the American Bankers Association. I would be happy to answer any questions you or the members of the subcommittee may have.

[The complete prepared statement of Mr. Zinsser follows:]

STATEMENT OF THE
AMERICAN BANKERS ASSOCIATION
BEFORE THE
CONSUMER AFFAIRS SUBCOMMITTEE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
ON
S.2110, THE FAIR ACCESS TO CHECK CASHING ACT

MAY 18, 1988

Mr. Chairman and members of the Subcommittee, I am August Zinsser, III, Executive Vice President of First American Bank in Washington, D.C. I am also a member of the Branch Administration Executive Committee of the American Bankers Association.

The American Bankers Association is the professional and trade association of the commercial banking industry. The combined assets of our members represent approximately 95 percent of the industry total. We appreciate the opportunity to discuss the issue of cashing government checks by depository institutions and S.2110, the "Fair Access to Check Cashing Act," which requires depository institutions to cash without charge government checks for noncustomers upon presentation of appropriate identification.

Background And Summary Analysis

The concern prompting this hearing and the introduction of S.2110 by Senator Metzenbaum is that recipients of government checks may have difficulty cashing those checks; banks often will not cash checks for noncustomers and the alternatives, check cashing facilities, may be expensive. In response to these concerns, last August, Congress passed the Competitive Equality Banking Act which includes a provision requiring the Government Accounting Office to study "the extent to which individuals who receive Treasury checks have difficulty cashing such checks." That study is not yet complete. Before proceeding with any legislative solution which may mandate that depository institutions cash government checks for noncustomers, it seems sensible to wait for the conclusions of this study.

Mr. Chairman, let me state at the outset, we are very sympathetic to the problems which have led to the solutions proposed by S.2110. We are however, concerned that the solutions proposed are not appropriate to the problem and may impose risks on the banking industry by requiring in too many cases that we assume the good faith and proper identity of individuals presenting checks drawn on government entities. We also need to recognize that excellent alternative solutions to the check cashing problem are now available, while others are emerging. Also, we need to be wary of a single mandated national "solution" which may not take into account the particular needs of a particular market.

The Association is interested in working with Congress to ease any problems recipients of government checks may encounter in cashing those checks. Indeed, we can identify some promising new approaches to financial products which simplify the delivery of government payments. Electronic payments through direct deposit programs or programs which provide access to benefits through automated teller machines ("ATMs") are examples. However, mandating that banks cash checks for noncustomers, as S.2110 does, presents very serious exposure in terms of fraud and cost and may in fact prove counterproductive to providing alternative financial services to low income individuals.

Briefly, S.2110 requires that depository institutions cash without charge checks in any amount issued by the United States Government, any state or local unit of government or any agency thereof, if the consumer presenting the check is the named payee and is registered with the depository institution cashing the check as outlined by the bill. Cashing government checks for noncustomers in this manner vastly increases the opportunity for fraud and loss from counterfeit, altered, and falsely endorsed government checks. Because governments do not indemnify depository institutions for checks improperly cashed, the losses for banks are potentially enormous. In addition, the bill requires depository institutions to bear the costs of providing the service. These costs are particularly burdensome for unprofitable or marginally profitable branches located in low income areas. Finally, mandating encashment of government checks inhibits the development of more cost-efficient, more convenient, and safer alternatives for delivering government payments.

The Legislation Would Increase Bank Exposure To Fraudulent Schemes And Current Significant Losses Would Rise Dramatically

Banks are reluctant to cash government checks for noncustomers for very legitimate and serious business reasons. Although there is little doubt that the United States Treasury or any valid government entity will pay properly endorsed, authentic checks, these government checks are not the equivalent of cash. Banks do suffer exposure from cashing government checks, and in fact are victimized by fraudulent schemes. For instance, governments will not

pay counterfeit checks, checks endorsed by someone other than the payee, or altered checks. This means that the government will not reimburse a bank for a check which was stolen and falsely endorsed or a check on which the amount was altered. Generally, the bank simply loses the amount it paid to the recipient.

This legislation basically presents a window of opportunity for individuals to use banks to perpetrate fraud through the pretext of cashing government checks. An example of even a single case demonstrates the enormous potential liability: Under the bill, a stranger may enter a New York bank and apply for a government check cashing identification card. The bank must issue the identification card upon verification of the stranger's identity. The stranger then walks into the branch with the identification card and a counterfeit $3,000 check drawn on a water district in California. The bank, which has limited ability to verify the authenticity of the check, must, even if it suspects that the check is counterfeit, immediately pay the person $3,000. When the check later proves to be uncollectible, the bank will likely never recover the $3,000 paid out; the person has no account relationship from which the bank may deduct the amount and the individual undoubtedly is not traceable. For small banks, in particular, even a modest sized check represents a significant loss.

The person could continue throughout the day cashing similar checks in other branches of the bank and the bank would have no basis to deny payment. The individual could also have acquired identification cards from several banks and proceed to cash altered or counterfeit or duplicated checks in those branches. Under this scenario, possibilities for the criminal are unlimited. Organized crime, in particular, would find the bill particularly useful and profitable.

While some may argue that the current statistics reflecting losses from uncollectible Treasury checks are sufficiently low to justify mandating depository institutions to cash government checks, these statistics are not reliable for gauging the impact of the bill. For one, they only represent losses from Treasury checks and do not show losses from state or local government checks. Secondly, and more importantly, they reflect losses suffered in an environment under which banks and, for that matter, other check cashers, may protect themselves from the fraud associated with cashing checks for noncustomers; banks have the choice to refuse to cash checks for strangers or checks

which they believe to be altered, counterfeit, falsely endorsed, or otherwise fraudulent. This legislation would move the industry from a controlled risk environment to an uncontrolled situation in which the industry absorbs the risks and the losses.

Cashing checks for noncustomers on a selective basis is a deterrent. It is a policy which discourages and makes more difficult cashing fraudulent checks. Assuming that the current losses from government checks are at an acceptable level, and therefore, all depository institutions should cash government checks for noncustomers, is like arguing that the polio vaccination should be discontinued because so few cases of the disease are reported. In both cases, reason suggests that the "low" figures are the result of cautionary measures taken, and not a justification for dispensing with those measures. Without those current preventive measures on which banks may choose to rely, losses from fraudulent government checks will increase dramatically.

Losses due to check fraud are already exorbitant. The bill will escalate current check fraud losses by creating new opportunities to expand current check fraud operations in a manner such as in the example described earlier. The FBI reports that depository institutions lost $1.1 billion in 1986 from check fraud. However, that number only represents losses submitted on the FBI criminal referral forms and do not reflect the aggregates of smaller losses which are generally unreported.

The FBI generally will not investigate cases involving check fraud in amounts under $10,000. In some areas of the country, the figure is as high as $100,000 due to resource limitations. Yet, the depository institutions aggregate of the small dollar losses are often many times greater than the losses over $10,000. Security officer associations estimate that actual losses from check fraud, taking into account losses not reported to the FBI, range between 7 and 11 billion dollars annually. We are concerned greatly that these already significant loss levels would threaten the stability of some banks under the S.2110 environment.

The Provision Requiring Banks To Issue Identification Cards To Noncustomers Is Inappropriate, Vulnerable To Fraud, and Expensive To The Consumer

The bill requires banks to register applicants for government check cashing privileges and issue an identification card for the purpose of cashing government checks. We believe that this provision places unfairly banks in the business of issuing identification cards to the public and that this responsibility more properly belongs to

the government. Banks should not be treated as extensions of the government.

Further, there are risks and responsibilities associated with issuing identification cards, yet, the bill offers no criteria for denying an applicant's request nor any alternative for the bank if the information of the applicant is unverifiable, suspicious, or inaccurate. The risk of relying on inaccurate information is already high, because false identification cards may be easily manufactured. If the bank is forced to issue a check cashing identification card under any of these situations, its potential losses are substantial given that the government will not indemnify it for any losses suffered from cashing fraudulent government checks, even if it followed the registration requirements outlined in the bill.

Before a bank cashes a check issued to a noncustomer, it must ascertain that the person presenting and endorsing the check is in fact the person named as the payee of the check. If it is later discovered that this is not the case, the bank will be unable to collect the funds from the person or government issuing the check. Thus, the bank must design procedures to assure that the people applying to cash checks are indeed who they claim to be.

While at first blush this may appear to be a simple task, under the circumstances, sources to verify someone's identification are limited. Possession of the usual types of identification such as driver's licenses, tend to be uncommon among people without bank accounts. Further, many identifications are unreliable because they are so easily imitated. In fact, there are books available in the market offering instructions on adopting the identity of a new and fictitious person and manufacturing identifications. Credit reporting bureaus are generally unusable in verifying an applicant's identification since it is unlikely that the applicants have applied for or received credit.

In the absence of any institutional source of identification confirmation, the bank's alternative is to hire a firm to investigate the applicant. The costs associated with the procedures involved in issuing check cashing identification have been estimated at $200 and more in some instances.

Banks Should Not Be Forced To Absorb The Costs Of Government Check Cashing

S.2110 does not allow banks to charge for the services involved in cashing government checks. Although the bank is allowed to charge the recipient for the cost of issuing the card, no fee may be levied to recover costs involved in the

presentment of the check at the branch and subsequent processing and clearing of the item. Many banks estimate these costs to be in the $2.00 to $3.00 range per check.

Additionally, there are costs associated with maintaining higher volumes of cash to accommodate increased volume of government checks. Handling cash is one of the more expensive and high risk functions of a bank's operation. The bill would force banks to increase the cash available on hand to accommodate government checks, checks which may be for considerable sums of money. Holding large amounts of cash in the branch increases expenses because: 1) that money cannot be invested; 2) transporting cash requires armored cars and special guards; 3) storing larger amounts of cash demands larger vaults and more security.

Absorbing The Costs Of Government Check Cashing Would Threaten The Viability Of Thousands Of Unprofitable Branches, Particularly Those Located In Low Income Areas

A May 1988 study conducted by Booz:Allen & Hamilton, Inc. concluded that about half of the nation's branches are potentially unprofitable. The report indicates that achieving profitability is even more difficult for small banks which lack the economies of scale enjoyed by large banks. Some of the significant conclusions reached by this report include:

- Half the nation's branches fell below the break-even threshold in today's interest rate environment.
- Over 40,000 branches were probably uneconomical in 1986.
  - over 30,000 branch offices of banks
  - over 10,000 branches of savings institutions
- Reduction in branch break-even expense levels has the most significant impact on the economic viability of small branches.

Introducing the additional costs of providing check cashing services will clearly exacerbate the precarious financial condition of unprofitable banks. It will also strain the already pressured budgets of marginally profitable ones. The obvious alternatives for these branches are to reduce already minimized expenses, increase fees, or close the branch altogether. The extra expense may also discourage banks from opening new branches in low income areas for similar reasons. Thus, the effect of a government check cashing program as envisioned by the bill,

may be to harm those living in low income areas whom the bill is intended to help; financial services, including cashing government checks, become even less available to them.

We would be happy to make the Booz:Allen & Hamilton study of Delivery System Economics available to the Subcommittee.

It can be anticipated that increased costs would largely be concentrated in branches located in low income areas where the recipients of government benefit checks most often do not have deposit accounts.

The high volume of recipients cashing checks in these areas will overcrowd branches on those days of the month when federal and state benefit checks are issued. Branches will have to adopt costly procedures and hire additional personnel to handle the increased volume. The additional expenses are particularly crucial for those branches operating at a loss or at a marginal profit.

Direct Deposit, Electronic Access, And Other Emerging Efforts Offer Reasonable Alternatives To Mandated Government Check Cashing

In addition to possibly reducing the number of branch facilities available to those living in low income areas, the bill's provision may do further disservice to government check recipients by perpetuating a method of payment which does not best serve the beneficiaries. The bill promotes the paper check distribution of payments and thereby discourages the exploration and development of less expensive, more efficient and secure, as well as convenient alternatives. For example, direct deposit payments into a recipient's account is a safe, efficient, and less expensive method to deliver payments:

- Recipients have immediate access to those funds. They do not have to wait for the check to arrive in the mail and then deposit it personally. The money is immediately available and earning interest (if deposited into an interest-bearing account).

- Recipients are protected from theft, both from theft of the check itself and theft of the cashed funds, particularly valuable to the handicapped and the aged. Recipients are not compelled to carry, in cash, the whole lump sum of the payment, but may draw funds as needed.

- Direct deposit encourages recipients to maintain accounts and thereby encourages savings.

Direct deposit presents an attractive alternative to receiving government checks by mail. Additionally, banks provide special consideration for those customers who may not readily afford a normal banking relationship, in the form of a basic bank account. A basic bank account typically is one which requires a low minimum balance, assesses no or low service fees, and limits the number of paper related transactions. A large number of banks currently provide low-cost or free bank accounts. A 1988 survey conducted by Sheshunoff & Co. indicates that 78% of banks provide free checking to senior citizens. A recent Association survey shows that in the last quarter of 1987, 52% of banks nationwide offer basic bank accounts, up from 44% in 1986. These figures approach 75% for large banks serving urban centers.

It is also worth noting that although Treasury only began using direct deposit in 1975, by 1987, 46% of social security payments were made by direct deposit. The percentage does not reflect the considerable and continuing increase in the number of social security payments due to demographical changes in the population. The high percentage of social security recipients adopting direct deposit in a relatively short period presents persuasive evidence that social security recipients find direct deposit highly acceptable.

Other convenient and practical alternatives to paper checks are in the process of development. These programs rely on electronic payments, ATMs, and special access cards and, thus far, show great promise.

For example, the results of a pilot program in Minnesota which distributes welfare assistance benefits electronically, have been so positive that the pilot has been extended and it appears that it will become a permanent program.

Briefly, the Minnesota program allows recipients to access benefits from ATMs and operator assisted teller machines, using magnetic striped identification cards, personal identification numbers, and other means of identification. Of the approximately 700 participants surveyed, only 4% preferred checks, with 88% of participants preferring electronic delivery, and the remaining 8% expressing no preference. Preliminary findings show this pilot to be cost-effective.

The United States Department of Agriculture is examining proposals to test the electronic distribution of food stamp welfare benefits. Potential benefits of these programs include: a reduction in recipients' vulnerability to theft; reduction in distribution costs; earlier access to

benefits; improved security from minimizing forgery; and reduced lobby traffic.

In New York City, public assistance and food stamp recipients now receive benefits through use of magnetic strip cards, eliminating the approximately 200,000 annual cases of lost or stolen benefits. The new system saved public assistance recipients $9 million in check cashing fees and reduced city administrative expenses by $11 million.

These programs are just a few examples of the current innovations and experiments which attempt to distribute government payments in an easy, safe, and cost-efficient manner. The bill's mandate that depository institutions cash government checks for noncustomers drastically reduces the incentive to advance these new programs and instead perpetuates a system which is costly and inconvenient to recipients.

* * *

Conclusion

Finally Mr. Chairman, we would like to assure you that we sympathize with the difficulties which recipients of government checks may encounter in cashing their checks and wish to work with Congress to develop a service to resolve problems with cashing government checks which will not impair the safety and financial health of depository institutions.

Let us summarize what we believe to be the points to be learned from this hearing:

- Generally, we believe that a legislative solution is premature, inappropriate, and unfair to depository institutions.
- The provisions of S.2110 would facilitate check fraud schemes and as a result, potentially increase fraud losses from an already high level. By prohibiting a bank's prerogative to control the cashing of noncustomer's checks, the legislation eliminates a powerful deterrent to check fraud and also limits the bank's ability to protect itself.
- The legislation imposes on banks the substantial administrative costs of providing the services without compensation.

- These administrative costs, added to the potential fraud losses, are particularly relevant to the 50% of branches already classified as potentially unprofitable.
- Loading on an expensive and "free" check cashing service may ultimately prove to be a critical factor to the survival of many branches, particularly in low income areas where there tends to be a high volume of government assistance recipients and where these recipients most often do not hold deposit accounts. In a deregulated environment in which profits are not assured and the financial viability of the depository institution demands more attention and effort than ever before, the high expense, high risks associated with the proposal impose major economic burdens which may threaten the safety and soundness of some banks.
- Alternative delivery and access systems are already available, and others in the process of development and experimentation appear very promising. These alternatives offer convenience, safety, and cost efficiency. Further, any single, nationally mandated response may be inappropriate to individual market situations. Mandating check cashing will inhibit development of these alternative systems, to the detriment of recipients and the federal and state governments.

Thank you Mr. Chairman for allowing me the opportunity to present the views of the American Bankers Association. I am happy to answer any questions you or the Subcommittee may have.

Senator WIRTH. Thank you, Mr. Zinsser.
Miss Miller.

STATEMENT OF PEGGY MILLER, REPRESENTING THE CONSUMER FEDERATION OF AMERICA AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Miss MILLER. My name is Peggy Miller. I'm here today on behalf of the Consumer Federation of America and the American Association of Retired Persons. I'm representing both here today.

Well, we've heard a lot this morning and before I proceed to try to bring you up to date in terms of the work we've been doing ever since the Senate floor markup just a couple months ago when Senator Metzenbaum tried to pass his legislation in an amendatory form, we want to thank Senator Metzenbaum for his continued support. We have been working—CFA, and, AARP and ACORN, and a number of other groups—for years on this issue and I think the problems have been clarified this morning. I really can't add to the issues or the problems.

We are talking about 30 to 40 percent of low-income people without bank accounts that can't cash their checks at banks. The surveys predominently show that this is a continuing problem and they have to go to check cashing outlets.

The CFA did a survey of the check cashing outlets in 20 cities. Consumers Union in California did a survey of California. And there has been repeated evidence, even that displayed this morning, and even, Senator Wirth in Denver, where we found that the charges were approximately $7.50 for a $500 government check at your check cashing outlets, of high prices being charged at these outlets.

REFUSAL TO CASH CHECK WITH OR WITHOUT BANK ACCOUNT

Furthermore people can't cash their checks even when they have an account. The testimony today has mainly concentrated on when they don't have an account. Even when they have an account, as Mr. William Smith, an AARP member who's here today and could answer questions—who has an account at a bank can tell you. He has had that account for years. He is a DC Government retiree. He has a U.S. Treasury check every month of $1,200. The bank has told him that as of next month he will not be able to cash his check any more unless he can raise the amount in his savings account to $1,200. He doesn't have $1,200. So even when you do have an account, and the bankers know him, and the tellers know him—he even went to the Treasury Department to try to get his check cashed and couldn't get past the guards—you can be refused check cashing assistance.

So we have a problem here. I don't think anyone is arguing that there's a problem. It's a problem of great magnitude. When we were calling around to the Senate offices in March in support of Senator Metzenbaum's amendment on mandatory government check cashing, we basically learned that there were four major concerns that had made headway with the staff and those concerns had to do with the check size limit, it had to do with cashing out-of-State locally issued checks, and it had to do with the costs. And

fraud had made headway as the major push from the bankers' standpoint.

What we realized at that point was even though we were completely in support of the Senator's legislation, that we had long work ahead of us if we were going to hold this legislation both on the Senate and on the House side and try to get action on it this year.

So we began to work very hard. We sat down with a number of the banking industry representatives. We tried to learn whether or not these concerns were their major concerns, and we learned, yes, that those were the concerns that they had on the whole, with fraud being the predominent one.

What we CFA and AARP tried to do and what the consumer groups have done as a block is to come in with what we would accept as a compromise position. This is not something we would like to do. This is something that we're striving to indicate to both committees, to the Senate and the House, that we are willing in the spirit of compromise to address the concerns.

The only one we think we can't address is fraud, and the reason we don't think we need to is we do not see evidence, actual evidence, that this is an issue. The Treasury Department has shown that there is only around 54,000 checks out of 400-some-odd million that are fraudulent every year. Right now, check cashing associations have to cash these checks anyway. These checks are going to these check cashing outlets. If fraud was a problem, it would be a problem right now in our opinion.

So that one aside, we tried to address the other issues which we thought were legitimate. Will this cost the banks money? Yes, it will take time—it will take teller time, et cetera. So we address that point with a $2 fee. We addressed the check size limit because they were telling Senate staff what if someone walks in with a $50,000 check and cleans out a small bank. We were willing to bring this limit down to $5,000. We don't want to go lower than that because we have found that some veteran disability checks could come up to that amount.

Finally, we addressed one of the major concerns that banks had indicated to us—out-of-State locally issued checks—how would a bank in Pennsylvania know that a water district check from Louisiana was any good—and even though this cut out some of our audience, we were willing to concede that point.

The only final point I want to make because my light is also on, is that we CFA, AARP and other consumer groups are at the table. We've been there for about a month and I don't know how much longer the groups feel that this effort to try to work with the banks is worthwhile. We've been doing a legitimate effort. We're still continuing to try. We feel we've addressed their concerns. We feel the Senate could go ahead with something of this nature. We do not feel that since the situation is in the emergency state that it is in, that it is the time to try to contemplate other forms of addressing this. If the Senate so chooses to study electronic transfer methods, there are many options in the future we could use. I think that one can proceed and move in terms of the legislation with the compromises we have put forth. I think we would learn a lot whether there are really any other problems at that point, and then if we

want to look into other things, I think that would be a very optimum way of approaching it.

The Aging Committee on the House side is continuing to push for this. A letter is going over to Mr. St Germain's committee this morning. The issue is beginning to be focused more and more. We feel it's something the Congress can move on this year. I want to thank you for your time.

[The complete prepared statement of Miss Miller follows:]

TESTIMONY BEFORE THE CONSUMER5 AFFAIRS SUBCOMMITTEE
OF THE SENATE BANKING COMMITTEE
BY PEGGY MILLER, ON BEHALF OF THE CONSUMER FEDERATION OF AMERICA
AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS

MAY 18, 1988

Good morning. My name is Peggy Miller. Today, I am representing the Consumer Federation of America (CFA) and the American Association of Retired Persons (AARP). We thank Chairman Dodd for holding these hearings and Senator Metzenbaum for continuing to push so strongly in these last two years for government check cashing legislation.

We, CFA and AARP, as well as many other consumer and community groups, including ACORN, Center for Community Change, and Consumers Union, have been working on this problem of government check cashing for many years. We are here today to clarify that this issue is not just a national problem, it is a national emergency, demanding immediate Congressional action. We are here to present some solutions that should make such action possible.

First, let me clarify the level of the emergency. The 1986 figures from the Survey of Consumer Finances show that 31% of families with incomes under $10,000 have no bank accounts, and another 15% of families with incomes between $10,000 and $15,000 have no bank accounts. Three-quarters of the banks in this country will not cash checks for non-account-holders.

These low and moderate income consumers believe they do not have sufficient funds to warrant an account, or as one working man put it as he stood in line at a check cashing outlet in New York City, having to have an account to cash a check is "hard for a man who doesn't make much money."

Only 15% of the banks in this country offer any type of basic banking account, and only 6% of these are totally free accounts, according to GAO. Minimum balance requirements are high, fees extensive. Only an additional 3% of the banks they interviewed stated that they intend to offer such low cost accounts in the future.

Even for those who do have an account at a bank, there is no certitude that they will be able to get their government check cashed. One AARP member, William Smith, a long-time Washington, D.C. government employee has been unable to cash his $1,200 D.C. pension check at the bank he has been banking at for years since it just merged into the new Crestar bank. Crestar informed him that he must keep a minimum balance of $1,200 just to be able to cash his check every month. This man is unable to keep such a balance in the bank and also pay his food bills. He has tried to find a bank that will cash his check. The only solution so far presented to him is to use his elderly father, who has an account with a proper balance, and cash the check through his account. If you have any questions for him, he is in the audience.

Such people often are forced to use check cashing outlets or other unlicensed community locations, such as liquor stores, where price gouging -- recorded repeatedly as high as 20-30% for personal checks, 10% for money orders, and 6% for government checks -- occurs constantly and personal safety is in question.

The impacts of such unlicensed activities are experienced by all low income people because these high check cashing costs are taken directly from their food or rent money. But the impacts on the elderly are even more severe. The mental and physical burden of travelling 20-30 miles to cash a social security check, of trying to fend off a mugger outside liquor stores after cashing a check, or of being asked to pay 50% of rent money for unneeded, high priced food at food stores willing to cash checks weighs even more heavily on elderly shoulders and should not be allowed. But still such events happen over and over.

CFA and AARP and other community groups have worked with Senator Metzenbaum and Congressman Schumer in the drafting of legislation that require banks to cash government checks for free. Senator Metzenbaum offered his legislation, S. 2110, on the Senate floor in April of 1987; it passed overwhelmingly, and the Conference Committee compromised by asking for a GAO study on the issue.

Though we were interested in hearing the results of this GAO study, additional information resulting from CFA's check cashing survey conducted last fall, the New Jersey survey which was published in January of 1988, and a recent California Consumer Union survey that was conducted in March of this year provide even greater documentation of the extent and gravity of the problem. This accumulative information supported immediate action.

CFA's National Survey of Check Cashing Outlets:

CFA's check cashing survey of 60 check cashing outlets in 20 major cities was conducted by phone during July of 1987. Charges for cashing a payroll check, a government check and a personal check were surveyed. We found that terms varied widely, with charges for cashing government checks ranging from less than 1 percent to 5 percent. We asked each outlet what they would charge to cash a Social Security check and an AFDC check, each for $500. The median charge was 1.5%($7.50), and the average charge was 1.69%, or $8.47.

Consumers who rely on check cashing services for their financial transactions may pay a staggering price, or they may pay fees competitive with bank service charges. Most often, they pay the larger amount.

A worker who cashes 50 $320 payroll checks a year and who buys six money orders a month could pay either $173 to $518 a year depending on which of two different outlets in Washington, D.C. he uses. The average cost for those trying to cash social security or AFDC checks was $125.70, including the purchase of four money orders, though it could go as high as $324 annually at one Los Angeles outlet.

The New Jersey Public Advocate Survey, "Who's Checking:"

Since this survey was summarized by a previous witness, I will only mention a few points that I feel are worth underscoring. This survey found that, when check cashing outlets were observed, different information was obtained than when they were telephoned. When the outlets were being observed, one out of every two checks were subjected to overcharge, sometimes as high as 500% more. Furthermore, this study documented: price gouging of up to 50% of the amount of the check in unlicensed check cashing outlets, exhaustive travel being demanded by elderly who then are subject to unacceptable costs and treatment; and discriminatory attitudes of bankers towards AFDC check holders.

"Check Cashing in California, A Survey of Commercial Check Cashing Businesses:"

Most recently, the staff of Assemblyman Peter Chacon of California with help from Consumers Union, conducted a study in March, 1988, which found that "an estimated 40% of low-income Californians and over 20% of Californians overall, do not have bank accounts." These people must rely on check cashing outlets since most California banks will not cash government checks for non-account-holders, and these outlets in California were found to be charging up to 6% for cashing government checks and up to 10% to cash money orders, with average levels of 2.15% and 2.86% respectively.

These statistics document that check cashing outlets often are charging exhorbitant fees. They can do so because they are vendors of last resort. Many of their customers, including our elderly, have no where else to go. Banks share responsibility in this outcome through their unwillingness to provide check cashing services. Congressional action is needed.

For this reason, we supported Senator Metzenbaum in his attempt to offer his government check cashing amendment again in March, 1988 on the Senate floor, the results of which action have led us here today.

On that March day when Senator Metzenbaum attempted to offer his amendment on the Senate floor, it became clear from the concerns listed by each Senate office we called in support of Senator Metzenbaum's amendment that the banks' concerns needed to be addressed where possible if we were to have a chance of reaching a final resolution in law on government check cashing this year.

Though we fully supported the language contained in the Metzenbaum bill, we decided that, if language modifications could answer those concerns raised by staff in a way that protects the substance of the legislation, this legislation could become a reality, thereby helping those consumers who so desperately need this relief.

Senate staff had pointed out four concerns with the legislation that hit home to them when raised by bankers: costs of cashing checks for which the banks were being paid nothing; fraud; lack of a check size limit thereby placing small banks in jeopardy if someone were to walk in with a large check and clear the bank out of cash; and the questionable status of out-of-state, locally issued checks.

We then sat down with representatives of the banking industry to listen to their views and heard a repetition of these points, with the exception of an additional concern regarding the cumbersome nature of the identification card system outlined in the legislation.

Consumer and community groups then developed new approaches which we feel address these concerns. We have brought them today for this Committee's consideration. We believe they offer a means of addressing the most serious of the banks' concerns while still moving forward with adequate consumer protection by providing for mandatory government check cashing in all depository institutions.

We -- CFA, AARP, ACORN, CONSUMERS UNION, CENTER FOR COMMUNITY CHANGE, U.S. PIRG, and PUBLIC CITIZEN -- would support the Metzenbaum legislation with the following amendments, in the spirit of compromise, though we prefer the legislation in its current state:

1) allow banks to assess a $2 fee for cashing checks;

2) allow banks to exclude the cashing of locally-issued, out-of-state checks;

3) limit the size of checks required to be cashed under the legislation to $5000; and

4) change the identification system to require that valid identification that includes a picture would be all that would be necessary to cash the check, if the bank does not choose to provide the identification system. (If the bank does choose to provide the identification system, it cannot require that its system be used.)

I wish to underscore that this series of amendments to the language is not preferred by any consumer or community organization. We believe these changes address those banking concerns which we believed could be addressed through legislation while still offering the consumer a reasonable solution to the problem.

The two dollar fee would address the problem of cost. This fee is based on the fee charged by Ameritrust which cashes government checks for $2. Banks that do cash government checks often charge more than this, but based on an ABA statement that it costs about 37 cents to cash a check, we feel that $2 is completely sufficient to cover costs and more.

Banks had pointed out that it is difficult to verify the validity of government checks being presented from local, out-of-state governments. As they said in many ways,"What if someone walks into a Connecticut bank with a check drawn on a municipal water district in Heaven's Point, Louisiana, how do we know if that check is any good or if that water district ceased to exist two years ago?" Consumer and community groups have agreed that this is a legitimate concern, and though certain travelling people are thus excluded from the benefits of the legislation , we have agreed that we could concede this point and allow banks to exclude these checks from those they are required to cash.

The concern that someone could "walk into a small bank with a $50,000 government check and clean out the bank's cash reserves," was raised repeatedly. Since such a check size does not fall within the check type we were trying to address in this legislation, we concede that the check size should be limited. The amount of $5,000 was chosen because it included all monthly social security checks, (the highest of which in 1986 was $1703), all AFDC checks (an Alaskan family of six receives $1,040 per month) and virtually all Veteran benefit checks (the highest average disability check is about $2,700, and thus these checks could range as high as $5000).

The change in the identification system toward a simple requirement for presentation of valid, photo i.d. was based on the banks' statements that they believed that the current legislative requirement for all banks to issue identification cards was to be cumbersome, restrictive and unclear.

In California, some banks accept the motor vehicle department photo i.d. card issued to non-drivers for purposes of opening an account. CFA checked on the existence of such capabilities in the other states' motor vehicle departments and found that all 50 states' motor vehicle departments offer the photo i.d. card service to any non-driver, with a range of costs from nothing up to $15. Since these departments are already set up to issue identification cards and are equipped to handle necessary identification requirements, we believe that such identification could suffice and would relieve the banks of this identification card burden.

Finally, on the question of fraud, we find no convincing evidence to support the need to address this issue in greater detail then that offered by the $2 check cashing fee. Currently, 54,000 government checks out of 482,000,000 are forged each year. This represents less than the normal bounce level of all checks cashed in banks. Furthermore, if extreme fraud was to exist, it would exist already since check cashing outlets already are in the business of cashing government checks, and check cashing outlets report a bounce rate of .01%. We saw no evidence that the fears expressed by banks on this fraud issue were founded.

Still, we would like to point out to the Committee that there are various routes you could choose to take if you feel that this needs to be addressed in some direct way. The printing of magnetically encoded serial numbers on checks can ensure that they are not photo copied. All banks could check for such a magnetic code presence, a code that cannot be photocopied, and if the check had no such code, it would not be cashed. Companies are beginning to encode their payroll checks in this manner.

The establishment of a computer network system accessible by all banks on which all government checks are entered when printed is another approach to help ensure check validity. A bank could simply check the data base to see if the check presented was printed in that amount. This could reduce check forgery problems, though it would not impact stealing of valid checks.

These suggested changes to the legislation, in our opinion, address the serious, legitimate concerns expressed by staff and the banking industry. With the inclusion of such changes, we believe that this legislation is workable for all and would provide a sage, reasonable solution to the problem at hand.

We urge the Committee to act now so this serious situation is brought to a halt. We will work with you in any way possible to assist you in your efforts to address the problem.

Senator WIRTH. Thank you, Miss Miller.
Mr. McWhorter.

STATEMENT OF W. K. McWHORTER, THE BUCKHEAD GROUP, INC., ROSWELL, GA

Mr. MCWHORTER. Senator Wirth, Senator Metzenbaum, ladies and gentlemen, from a security standpoint, which is what I'd like to address in this issue, this bill will unfairly force the banking industry to open its doors to every check forger in America under the guise of "public service." It will give every forger a "license to steal"—in this case a "check cashing card to steal".

[The complete prepared statement of Mr. McWhorter follows:]

THE BUCKHEAD GROUP, INC.
770 OLD ROSWELL ROAD
SUITE J-400
ROSWELL, GEORGIA 30076
TELEPHONE (404) 998-0600

TESTIMONY BEFORE THE SENATE
BANKING COMMITTEE RE MANDATED
CASHING OF GOVERNMENT CHECKS

Time: 10:00 A.M., May 18, 1988

Place: Room 538, Dirkson Senate
Office Building

By: W. K. "Woody" McWhorter

This bill will unfairly force the banking industry to open its doors to every check forger in America under the guise of public service. It will give every forger a "license to steal" - in this case a "check cashing card to steal" with no profits from revenue to offset losses.

LADIES AND GENTLEMEN: I am W. K. "Woody" McWhorter from Atlanta, Georgia. I have been in law enforcement and private security for 26 years - since 1962. I graduated from the University of Mississippi in 1962 with a law degree and was admitted to the Mississippi Bar that same year. From 1962 until 1969, I was a Special Agent with the Federal Bureau of Investigation (FBI). From 1969 until 1971, I was the Director of Security for a retail department store chain based in Atlanta, and then from 1971 to 1972, I was the Atlanta Branch Manager for a national security firm. In 1972, I started a security management company where we acted as security managers for companies that did not have their own in-house security departments. We also conducted background investigations and polygraph examinations for many Fortune 500 companies, as well as both large and small financial institutions. In 1985, we sold our operations to a public company. At that time we also had a uniformed guard division and over 350 employees. After the merger I gradually phased out of the management and started a management consulting firm - The Buckhead Group, Inc. - in 1986.

This bill will not only not help the low income individuals who do not have bank accounts, but it will put an undue burden on the financial institutions because of administrative and investigative costs, as well as increased losses from forgery and fraud which will surely follow.

It will be unfair to pass all the administrative and investigative costs along to the cardholder or to ask the financial institution to pay even part of the cost since the financial institution will derive no revenue from cashing these checks. It will only be opening its doors for potential forgery and fraud, and be in a "no win" situation.

Before cards are issued to applicants, background investigations will have to be conducted to not only prove that the individual is who he or she claims to be, but also to prove that the individual does not have a history of check forging.

Each cardholder will have to submit to a minimum of:

(1) Fingerprints being sent to FBI Fingerprint Identification Division

(2) Photographing for identification card

(3) Checking credit history - banks will in reality be creditors for the two or three days it takes for the checks to clear the payor's bank

(4) Checking local criminal history in addition to National FBI files.

Even if these points were covered in a background investigation, the risk of fraud still exists. The cost of this minimum background investigation would be at least $100 per cardholder, even if done in large numbers, which would have to be passed along to the cardholder. In addition, periodic investigations (probably every year) would have to be conducted to update the information and possibly issue new cards to each cardholder at more expense.

When applicants are refused a card after a background investigation, needless to say they will not be willing to pay any of the costs. Therefore, the bank will have to pay all that expense or pass it along to the people who do pay for their cards. For the smaller banks that cannot handle these background investigations in their in-house security departments, these investigations will have to be contracted out and cost even more.

At this time there is no one, central agency or company where a bank can go to check criminal and credit histories on a nationwide basis. With every financial institution being responsible for issuing its own cards, there would be no coordination to prevent fraud. This would mandate that the banking industry establish a central indices to prevent a thief from going from one bank to

another. An unscrupulous cardholder could get a check cashing card issued by every bank in a given area, forge and cash checks at all banks and never be tied together, if a central data bank is not maintained and continuously updated.

Even if extensive background investigations are conducted, costing in the hundreds of dollars, we would still have the problem of losses caused by forgery and fraud with no recourse or any kind of revenue to offset these losses. There will be no deterrent to fraud, such as getting caught and prosecuted, because most banks will find it too costly and time consuming to investigate and prosecute. "Without the fear of getting caught and punished", many of us would be thieves at some point. Unfortunately, for some of us that point may be a $300.00 forged Social Security check that was stolen from a senior citizen's mailbox. The easier it becomes to cash government checks, the more thefts we will have of those checks.

I realize that the vast majority of us are honest, but it is those few rotten apples that stink up the whole barrel and effect all of us.

The only groups of people that this bill will truly benefit are security people and check thieves/forgers. It will create more jobs for investigators and make security companies a lot of money.

There has to be another way to accomplish what this bill is trying to do, but I do not have the answer. I just know that the issuing of identification cards to non-customers for mandated cashing of government checks will not work. It will create more problems than it will solve, not only for the banking industry, but for the low income people it is trying to help.

Senator WIRTH. Thank you. For the record, I believe, Senator Metzenbaum, that Mr. McWhorter is here at the invitation and request of the banking interests who asked him to come.

PROBLEMS ARE GETTING WORSE

Let me if I might just make a couple of comments. I'm struck as I listen to this testimony—and I've been involved in this issue for some time—that, as Miss Miller and others have suggested, this problem is not getting better, but getting worse; that 18 percent at least of people who don't have a banking account and that number is rising and may be as high as some people suggest as 40 percent.

As I look at the statistics of what's going on in this society, Senator Metzenbaum, the gap between rich and poor is probably getting greater and has been exacerbated by a lot of the policies we've been pursuing the last 8 years.

There are distinct parallels in this industry between what we ought to be doing here and have done elsewhere. You and I have been involved in the problems of redlining in housing and I suspect this is a similar kind of situation.

I can remember when we wrote the cable television legislation, there was at that point efforts made by the cable television industry to wire affluent neighborhoods and not to wire unaffluent neighborhoods and we heard a lot of echos of similar kinds of arguments made today, as then, and the Congress said, "No, all cities have to be wired."

Basic telephone service was at one point a similar sort of problem, that if you had a rich mother you could call her but if you had a poor mother you couldn't; and the Congress stepped in at that point and said we're not going to do this.

WHY THE AMERICAN PUBLIC GETS ANGRY WITH BANKERS

What strikes me, Mr. Heuer and Mr. Zinsser, is that you all are dramatically what I would suggest is behind the curve, and I find it really surprising that institutions that have as major a stake in this society as the banking industry does and that receives as many benefits from this society as you do, cannot come in and offer a constructive approach to solving this problem.

You have access to the Fed window and that helps to make your institutions work. You know that there's ultimately Uncle Sam back there if you guys foul up and in a "Continental" situation we'll be there to bail you out. You've got deposit insurance to encourage people to come in and put their deposits in your institutions. And recently there was a very significant granting of new powers given to financial institutions.

I would think that you would feel it was your responsibility as institutions not to come in and tell us why this is all bad, but rather, to sit down and in a constructive method, as Miss Miller was suggesting I thought in a very thoughtful analysis of the situation, to come in and give it a try to solve the problem. Then you wonder why people up here and the American public get so very angry at bankers.

I spent a lot of time as a member of this committee trying to work with bankers and trying to understand your problems and

trying to reflect what's good for this society, right? And I would just close by saying I think you have an obligation to do that, too. I think you have an obligation to help us as well govern a society of 240 million people in which it is one of the fundamental goals of this society that everybody ought to be able to participate, and participating in our financial system is what people have to be able to do, just as they have to participate in the job situation or in the education situation or have access to information through cable television and telephones.

And I'll tell you, if you're not willing to do that, we're going to do it to you, and that's going to happen. And I think it's much better if you figure out how to do it.

For the most part, I think the banking industry really tries, but I'll tell you, when the lowest common denominator approaches come in, kind of bottom lowest common denominator trade group attitudes come in, I think that your industry is not well served and I certainly think that there is a very large portion of the American economy and the American population that is not well served either. I'm really sorry to hear the kind of testimony you're offering today. I wish that you would take a leaf out of Mr. Brandon's book and come in and be constructive as you ought to be.

Senator Metzenbaum.

Senator METZENBAUM. Well, I want to commend the chairman and identify with him on this question. There's a train coming down the tracks. The train is going to move. It's really a question of whether you come on the train with us or whether you just stand and see it go by.

I want to make it clear that when the GAO comes in and says that it costs 28 cents to 33 cents to cash a check, when they come in with their report and say that fraud is a negligible factor, it's pretty difficult for me to sit here and get excited about a $2 charge. I commend Miss Miller for indicating a willingness on the part of the consumer groups to accept a $2 charge. I want to say that as a U.S. Senator, charged with the responsibility of passing legislation or defeating it, I don't accept that charge. I don't know that you need that much. But I have gone along and have participated in the past in compromises with respect to legislation because I thought it was the practicable way to go—the practicable way to go.

And I've sent out messages to you in every way possible that I am prepared to try to work with you to pass legislation and I think I can only say it once more, I haven't heard from a single one of you—I've asked my staff—we've said we're ready to talk—nobody has come in. Mr. Brandon has indicated a willingness to talk. I can't believe that he's the only banker in this country that recognizes the need to move on this subject.

THIS LEGISLATION IS GOING TO MOVE

When you've got the chairman of the Banking Committee of the House and you've got the chairman of the Banking Committee of the Senate and you've got ranking members of this committee coming forward and indicating their support, it's pretty obvious we're going to move.

Frankly, gentlemen, I would much prefer that we move together. I have seen issues around this Congress when people were very wide apart, such as the plastic gun issue and the NRA and the Justice Department on one side, and finally we were able to work out something and move.

And I would hope that you would see fit to promptly move, not to indicate a willingness to compromise when the legislation is just about to become a reality. We're going to move it as rapidly as possible. I have a commitment from the chairman of the Banking Committee that this bill will be marked up—my recollection is prior to June. I'd hope we could hear from you—or at least some time during June—that we could hear from you very promptly and we would like to work with you. I think that there's enough support in the Congress to cause you to reassess your position. We want to protect you. We don't want to have you lose any money, but we also want to protect that segment of the population that needs some protection from the people that make laws in this country.

I thank you, Mr. Chairman.

Senator WIRTH. Just as a final note if I might, I appreciate the cost of money. If you cash a $1,200 check and there's a cost of having access to that money. That's perfectly legitimate and no problem with that. If that costs $2 or whatever, fine. I mean that's very legitimate.

But let's figure out a way to solve the problem. It doesn't behoove you not to be involved in the process of that I don't think, given your responsibilities and commitments and spectacular history in terms of helping to make this country grow and the opportunities that are available. We try to work with you. We try to listen to your set of problems. We've just been through an incredibly complicated piece of legislation in which I think the interests of the banking community were very well articulated and very well heard, right? I think you have a responsibility to hear interests coming the other way. This country is great the way it is because it's a two-way street, not just a one-way street.

We thank you all very much for being here. Mr. Brandon, we appreciate your constructive comments. Miss Miller, we appreciate what you and the Consumer Federation and Retired Persons are doing and we hope that we can get a cooperative approach to the bill. Thank you all.

[Whereupon, at 12:30 p.m., the hearing was adjourned.]

[Additional material supplied for the record follows:]

ELECTRONIC FUNDS TRANSFER ASSOCIATION
SUITE 1000 • 1726 M STREET, N.W., WASHINGTON, D.C. 20036 • (202) 659-2100

June 13, 1988

The Honorable Christopher J. Dodd
444 Russell Senate Office Building
Washington, DC 20510

Dear Senator Dodd:

On Wednesday, May 18, 1988 the Subcommittee on Consumer Affairs held a hearing on Government Check Cashing and specifically S. 2110. The Electronic Funds Transfer Association (EFTA) would like to contribute to the discussion and offer some useful recommendations for your consideration. Consequently, we are submitting the attached statement for the record.

Recognizing the important contributions that electronic funds transfer can make to government payments, the Association recently announced that it is conducting a study of the opportunities to convert paper based systems to electronic payments systems. While this study goes beyond the limited scope of check cashing for recipients of government benefit payments, we believe that the issues are relevant to the Banking Committee and we look forward to working with you to find the best possible solution to the problem.

Sincerely,

Dale L. Reistad

Dale L. Reistad
President & CEO

att:

STATEMENT OF THE
ELECTRONIC FUNDS TRANSFER ASSOCIATION
ON THE APPLICATION OF
ELECTRONIC FUNDS TRANSFER SYSTEMS
TO GOVERNMENT PAYMENTS

June 13, 1988

Congress is now considering legislation to mandate check cashing for recipients of government checks. The Electronic Funds Transfer Association (EFTA)* suggests that Congress consider the use of electronic funds transfer (EFT) systems as a viable alternative to paper checks. As you may know, electronic systems involving direct deposit of federal entitlement payments, combined with systems for automated teller machine (ATM) or point-of-sale (POS) withdrawals using access cards, have been successfully tested and are now being used to an increasing extent.

EFTA generally endorses efforts to increase the use of electronic payment systems and services. The Association believes the increased use of new payment systems technologies will bring significant benefits to the public, businesses, and government. Such benefits include lower costs, greater operating efficiencies, and more user convenience. In addition, EFTA believes that electronic systems can deliver new products and services that cannot otherwise be provided with paper-based systems. For these reasons, EFTA encourages Congress to consider the many benefits of direct deposit of federal payments combined with ATM and POS terminal access to cash in developing a solution to the government check cashing problem.

Currently, a number of EFT initiatives are taking place in the federal government in recognition of the costs, savings, and benefits of EFT. EFTA has begun a research project that will review the present and likely future EFT activities of the federal government. The Association's research will explore the various EFT activities of government entities and will then evaluate the potential opportunities for continued growth in these new payment system technologies. The U.S. Treasury Department will soon be conducting a debit card test in Baltimore for the distribution of Supplemental Security Income benefits. The Marine Corps is using smart cards for purchases at its Parris Island base, and the Navy has begun placing ATMs on its aircraft carriers.

Electronic payments are more efficient, convenient and less costly than paper checks. The specific major benefits of direct deposit of federal entitlement payments (as an alternative to a check cashing program) with ATM withdrawals include the following:

For Recipients:

1. A safer, surer way than checks to guarantee that funds have been deposited;
2. Faster funds availability because there are no check hold periods and no teller lines; and
3. Convenient access to deposited funds via ATMs.

---

*The Electronic Funds Transfer Association is the only national multi-industry organization committed to addressing the broad range of issues affecting the rapidly evolving EFT field. The Association's members include large and small commercial banks, thrift institutions, credit card companies, credit unions, department stores, oil companies, data processing firms, equipment and software manufacturers, telecommunications companies, and shared EFT networks (member list attached).

For the Government:

1. The Treasury Department reports savings of over 20 cents per transaction in processing costs alone compared to check issuance. There are potential savings of $11.2 million in FY 1987 (559 million federal checks x 20 cents).
2. Eliminates claims of lost, stolen and fraudulent checks. In FY 1987, Treasury reclaimed or refused payment on checks valued at $63.7 million.
3. Improved efficiency and financial control.

For Depository Institutions:

1. Reduced costs of bad check losses.
2. Lower processing costs.
3. Improved customer relations.
4. Reduced lines on paydays.

Electronic funds transfer of direct deposits for federal recurring payments has been in use for over a decade. In 1980, 10.3 million, or 31 percent of the monthly Social Security payments were directly deposited. By 1987, participation had increased to 46 percent. The proportion of Social Security beneficiaries accepting direct deposit is expected to increase dramatically as the Social Security Administration begins to deliver benefit payments electronically. Applicants are, however, allowed to specifically request paper checks.

It has not always been easy to gain acceptance of direct deposit. One reason is insufficient education on the benefits of direct deposit to consumers. Another reason is that some banks and thrift institutions have been unwilling to accept certain direct deposit payments because they are held liable for withdrawals made from deceased recepients' accounts, even if the government fails to promptly notify the depository institution that the individual died (in FY 1987, checks valued at $38.9 million were issued by Treasury to deceased payees). Yet another reason has been the limited availability of locations to obtain cash.

Today, many of these problems are being solved. Attached is a set of data charts showing the growth of EFT transactions, terminals and cards. These charts illustrate the increasing acceptance and use of electronic payment systems by consumers.

Overall, electronic payments systems will afford the following benefits:

- Facilitate immediate, low cost cash access to pre-deposited funds for the needy who do not have regular bank accounts.

- Provide convenient access to cash at ATMs — often at the points of greatest consumer need — branches, supermarkets, shopping centers, bus and rail stations, and other locations. (There are more than 70,000 ATMs nationwide).

- o Eliminate problems of lost checks and checks stolen from mailboxes and postal delivery employees.
- o Eliminate complaints of non-receipt of checks with associated investigation costs and delays.
- o Resolve errors more quickly.
- o Eliminate check fraud losses and reduce fraud losses from forged or invalid ID cards.
- o Reduce long lines at branch teller windows.
- o Save the Treasury and taxpayers money.

In addition to U.S. Treasury and other federal agency electronic funds transfer systems, EFT-based delivery systems already exist at state and local levels. Some examples are:

- o New York City has had an all electronic welfare payments system in place for over two years.
- o New York State has established an electronic system to verify Medicaid eligibility.
- o Ramsey County, Minnesota, is using ATMs and POS terminals to provide cash for public assistance programs.
- o Reading, Pennsylvania, has established an electronic benefit system for the food stamp program.

In conclusion, for the reasons stated, EFTA recommends that Congress consider an electronic funds transfer approach to deal with the government check cashing problem. These systems and technologies are already available and in use today.

We stand ready to assist the Congress in addressing this important issue.

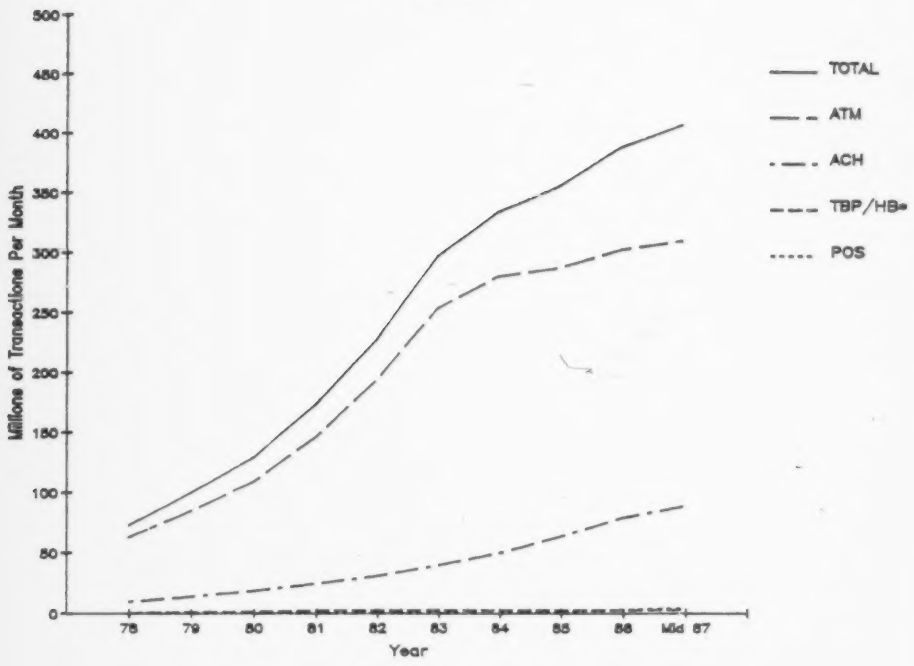
ELECTRONIC FUNDS TRANSFER ASSOCIATION

April 1988

American Airlines
American Express Company
Ameritrust Company, N.A.
Amherst Group Inc.
Amoco Oil Company
Applied Communications, Inc.
ARINC Research Corporation
Associates Financial Services Company Inc.
AT&T
Automatic Data Processing
BANAMEX
Bank of America
Bank of Boston
Bank of New England
Banc One Corporation
Barclays of New York
Baybanks Systems Inc.
Bell Atlantic Corporation
Bell South Enterprises, Inc.
Bell South Services
Benton International
BUYPASS The System, Inc.
Bydatel Corporation
Canadian Imperial Bank of Commerce
Carter Hawley Hale Stores, Inc.
Cash Flow, Inc.
Cash Station, Inc.
Cetron Transaction Systems, Inc.
Chase Manhattan Bank, N.A.
Chemical Bank
CIRRUS Systems, Inc.
CITGO Petroleum
Citibank, N.A.
Comerica, Inc.
CompuServe
CR Systems, Inc.
Credit Card Software, Inc.
DataCard Corporation
Datachecker/DTS Corporation
Deluxe Data Systems
DIEBOLD, Inc.
Digital Radio Networks, Inc.
Eastern States Bankcard Association
EFTEL Pty. Limited
Electronic Data Systems Corporation
Electronic Strategy Associates
Empire of America FSB
enRoute Card Inc.
ERICSSON Communications
Exchequer Technology Services, Ltd.
EXXON Company, U.S.A.
Fifth Third Bank
Financial Interchange Group Inc.
First American Metro Corp
First Bank Systems, Inc.
First Data Resources, Inc.
First Financial Management Corp.
First Interstate Bancorp
First National Bank of Chicago
Florida Interchange Group Inc.
Freddie Mac
Fujitsu Systems of America
GN Telematic Inc.
Great American First Savings Bank
GTE - Information Systems
GulfNet
Household Bank
IBM Corporation
ICOT Corporation
Instabank
Integra Systems
Interactive Training Systems
International VERIFACT (U.S.)
Internet, Inc.
JC Penney Systems Services Inc.
Key Services Corporation
MAG-TEK, Inc.
Malco Plastic
Manufacturers Hanover Trust Co.
Marine Midland Bank, N.A.
MasterCard International
McCorquodale Holdings, Inc.
McDonnell Douglas Payment Systems
Mellon Bank, N.A.
Merchant Network Inc.
Meridian Bancorp, Inc.
Merrill Lynch
Metroteller Systems, Inc.
Michigan National Bank
Micro Card Technologies
Mobil Oil Corporation
Money Card Systems
Money Station of Ohio
Motorola, Inc.
MTech
National Business Systems, Inc.
National Data Corporation
Nationwide Remittance Centers
NCR Corporation
New England Network

New Mexico Interchange Network
New York Switch Corporation
Northern Telecom
Norwest Corporation
NYNEX Corporation
Omron EFT Services, Inc.
PacTel Spectrum Services
Payment Services Co./Telecheck
Peat Marwick Main & Co.
Petro-Canada Products
Philadelphia National Bank
Pinpoint Retail Systems
Pitney Bowes
Price Waterhouse
R.J. Reynolds Tobacco USA
Rock Valley Network
Royal Bank of Canada
Schlumberger
Sears Payment Systems
Security Card Systems
Shared Financial Systems
Shell Oil Company
SLIGOS
SmartCard International
Southern New England Telephone
Southwestern Bell
Southwestern States Bankcard Association
Speer and Associates, Inc.
Star Systems
State Street Bank & Trust Co.
Super Valu Stores, Inc.
Southwest Automated Clearing House
Syntellect, Inc.
Tandem Computers, Inc.
Tandy Corporation
Telecredit, Inc.
Telenet Communications
TEXACO USA
The Travelers
Thomas De La Rue Inc.
Tokheim Corporation
TransFirst Corporation
Travelers Express Company
Trintex
Union Trust Company
USAA
Verifone, Inc.
VISA U.S.A., Inc.
Wang Laboratories, Inc.

Number of EFT Retail Transactions
Average per Month, by Year
1978–1987



*Includes bill payments, transfers and inquiries; excludes non-financial transactions

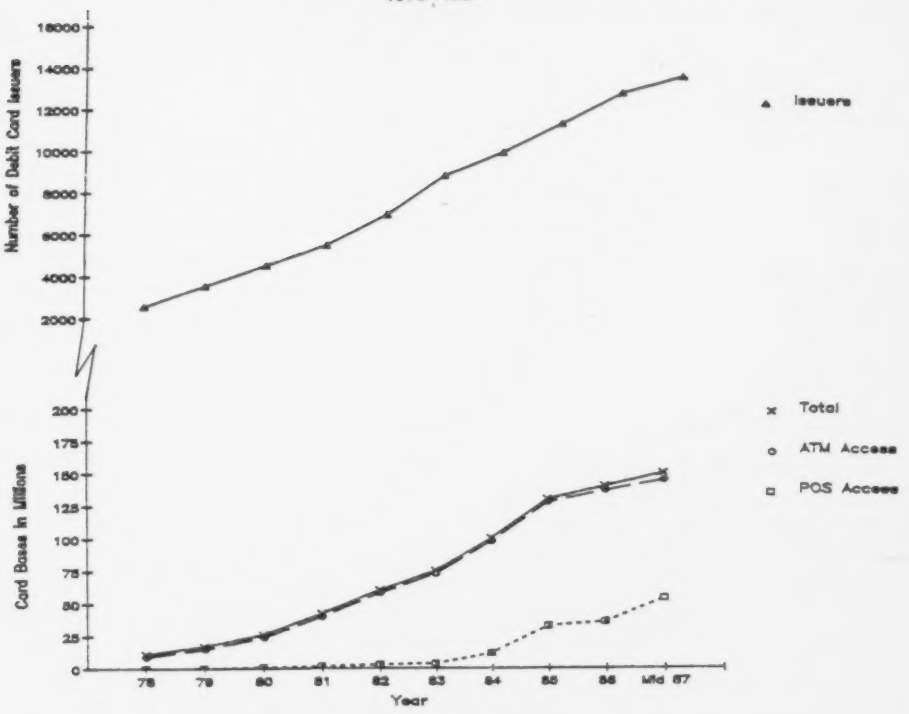
Description: This graph shows the estimated average monthly number of retail EFT transactions in the U.S., by year, from 1978 to 1987. Data for 1978 through 1986 are as of yearend; 1987 data are midyear.

"EFT transactions" includes transactions through ATMs (automated teller machines), POS (point of sale) debit terminals, telephone bill-paying and home banking, and ACH (automated clearing house) services.

Sources of Data:

- Bank Network News
- LINK
- Major ATM installers
- National Automated Clearing House Assn.
- POS News
- Regional shared EFT networks
- U.S. League of Savings Institutions
- Linda Fenner Zimmer

Debit Card Base In The U.S.
And
Number of Financial Institutions Issuing Debit Cards
1978—1987



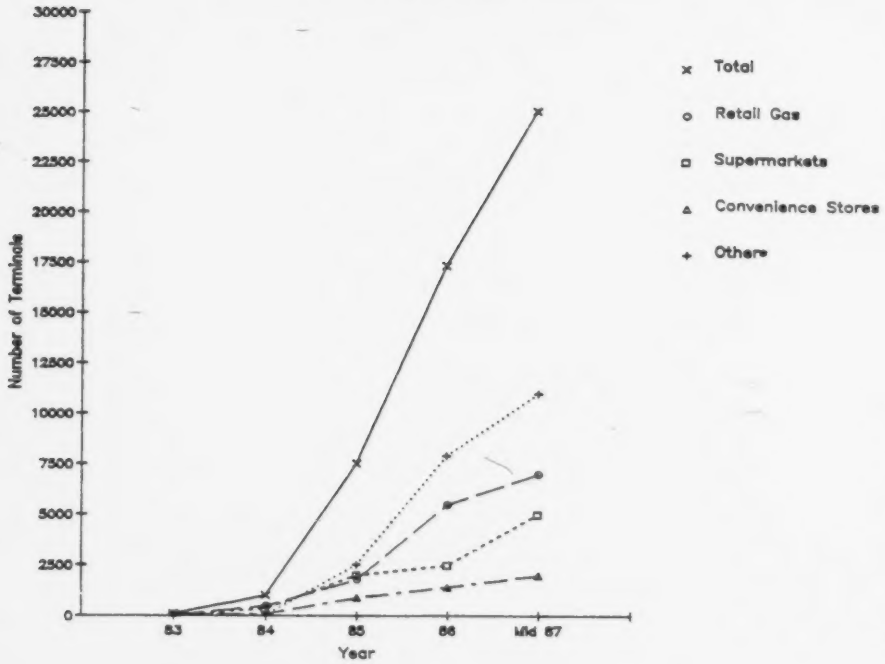
Description: This graph shows the estimated number of debit cards outstanding in the United States by year from 1978 through mid-year 1987, including the number that have access to ATMs and the number that have access to POS debit terminals, and the number of financial institutions issuing them. Data for 1978 through 1986 are as of yearend; 1987 data are midyear.

The term "debit card" refers to plastic cards that gain access typically to transaction and savings accounts and sometimes lines of credit or other loan accounts through ATMs (automated teller machines) and POS (point of sale) debit terminals. Some issuers also use these cards at teller windows.

Sources of Data:

- Bank Network News
- MasterCard International
- POS News
- Unidex Reports
- Visa U.S.A.
- Linda Fenner Zimmer

POS Debit Terminal Base
Total and By Type of Retail Location
1983–1987



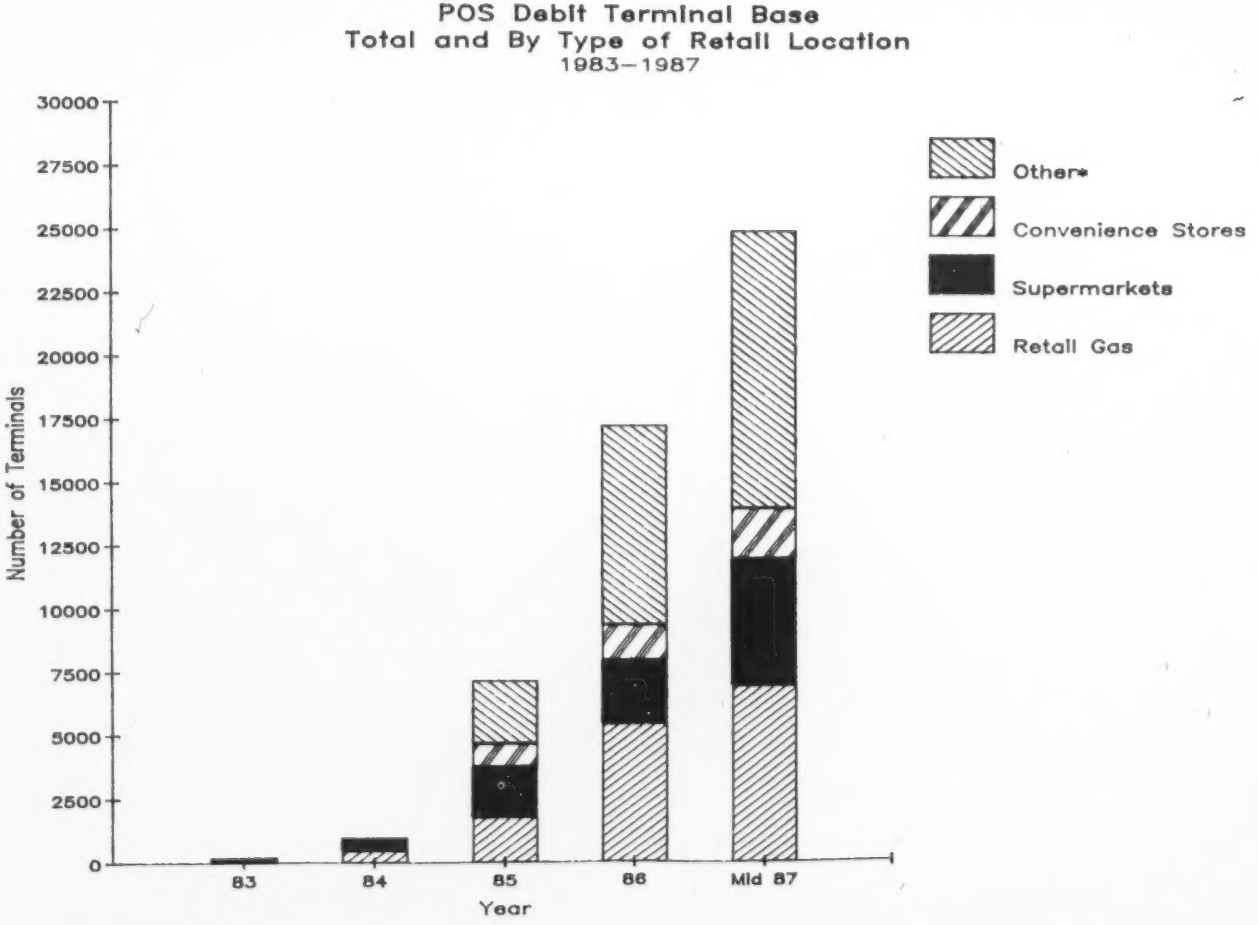
*Includes major retailers, department stores, fast-food restaurants, and non-retail locations such as nursing homes.

Description: This chart shows the number of POS (point of sale) debit terminals operational in the U.S. by year from 1983 to mid year 1987, and the number installed by major types of retail locations.

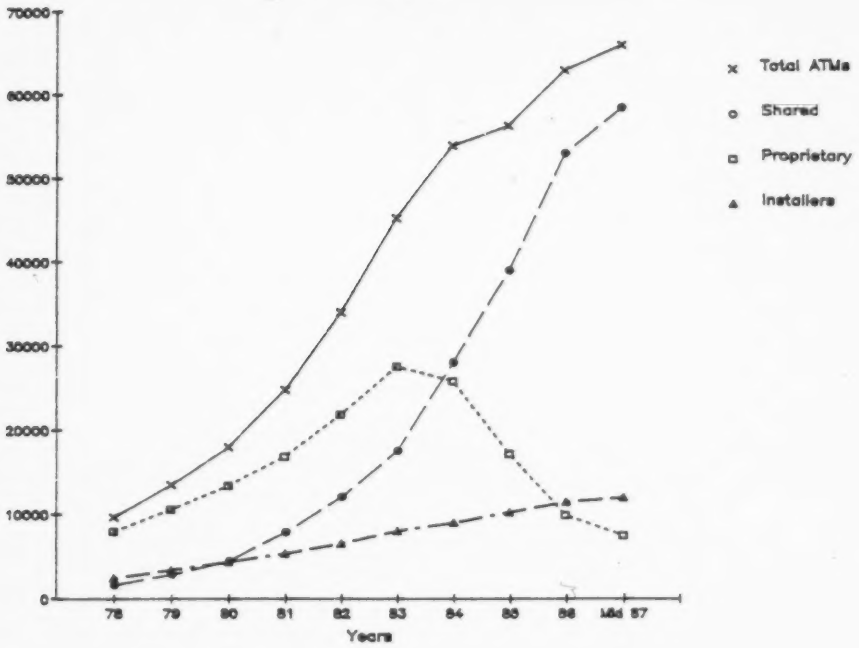
These figures do not include clerk- or customer-operated terminals installed in retail locations that provide cardholder access to checking or savings accounts for routine banking transactions (withdrawals, deposits, etc.).

Sources of Data:

- Bank Network News
- Carmody & Company, Inc.
- EFT Report
- POS News
- Regional Shared EFT Networks


POS Debit Terminal Base
Total and By Type of Retail Location
1983–1987
Number of Terminals
30000
27500
25000
22500
20000
17500
15000
12500
10000
7500
5000
2500
0
83
84
85
86
Mid 87
Year
Other*
Convenience Stores
Supermarkets
Retail Gas

Number of Operational ATMs
And
Number of Financial Institutions That Have Installed ATMs
1978–1987



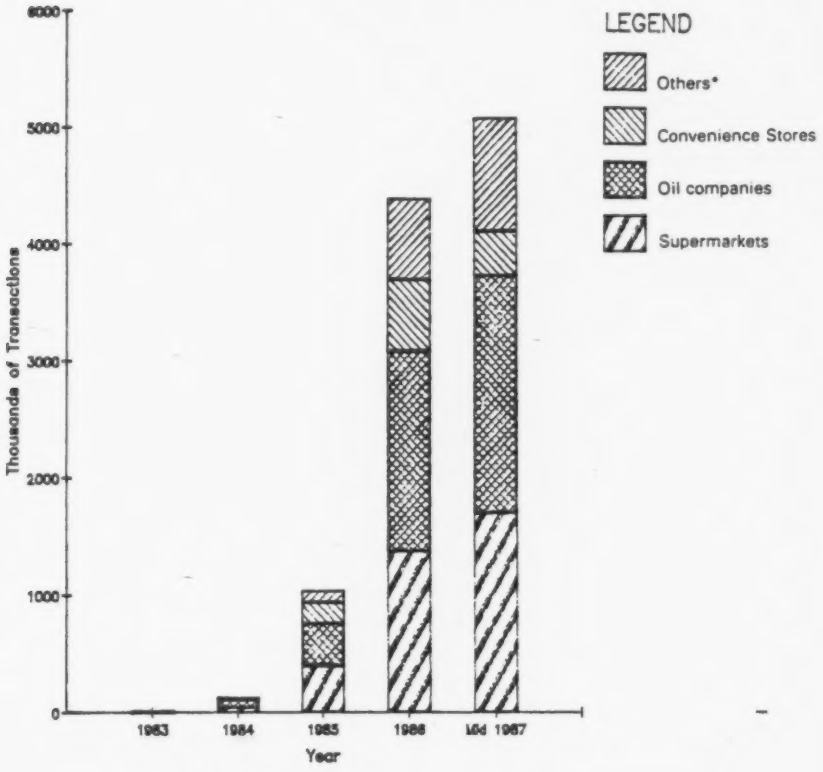
Description: This graph shows the estimated number of operational ATMs (automated teller machines) in the U.S., including the number that participate in shared ATM networks and the number that remain proprietary, and the cumulative number of financial institutions (banks, savings institutions and credit unions) that have installed these machines.

Data shown are for yearend each year from 1978 to 1986 and for midyear 1987. Financial institutions are not required by law or regulation to submit reports for public distribution of the number of ATMs they have installed.

Sources of Data:

- ATM manufacturers
- Bank Network News
- Major ATM installers
- Shared ATM networks
- Linda Fenner Zimmer

Average Monthly POS Debit Transaction Volume
By Retailer Category
1983–1987



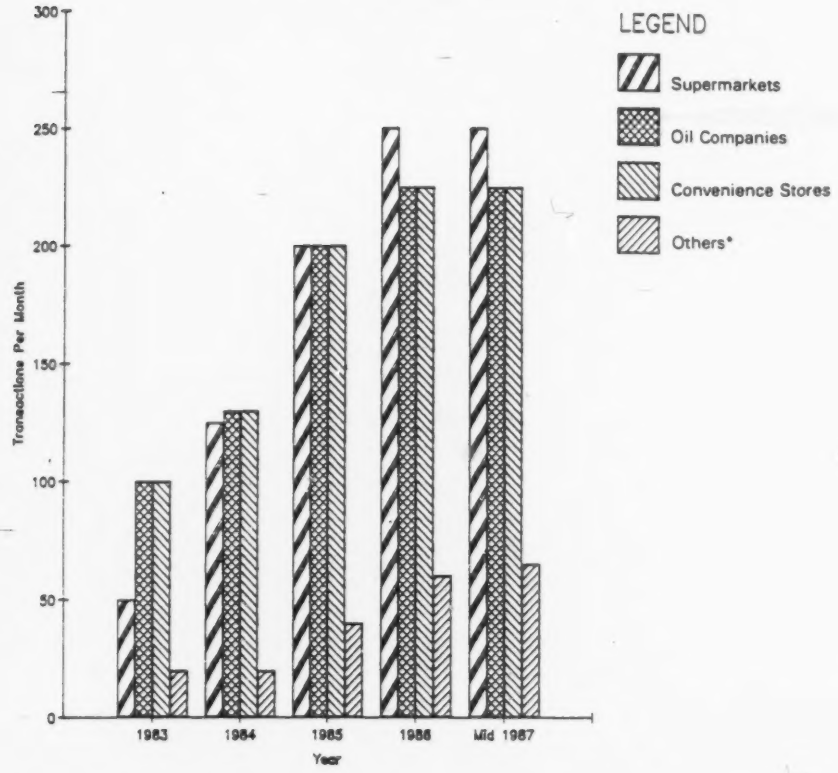
*Others include major retailers, general merchandisers, department stores, and specialty retailers (clothing stores, toy stores, book stores, etc.) as well as non-retail locations such as hospitals.

Description: This chart shows the total number of POS debit transactions by type of retailer for four major retailer categories per month, averaged over the year.

Sources of Data:
- Bank Network News
- Carmody & Company, Inc.
- Major POS debit terminal deployers (banks and retailers)
- Major shared EFT networks
- POS News

Copyright 1987 Electronic Funds Transfer Association

Average Monthly POS Debit Transaction Volume
Per Terminal by Retailer Category
1983–1987



*Others include major retailers, general merchandisers, department stores, and specialty retailers (clothing stores, toy stores, book stores, etc.) as well as non-retail locations such as hospitals.

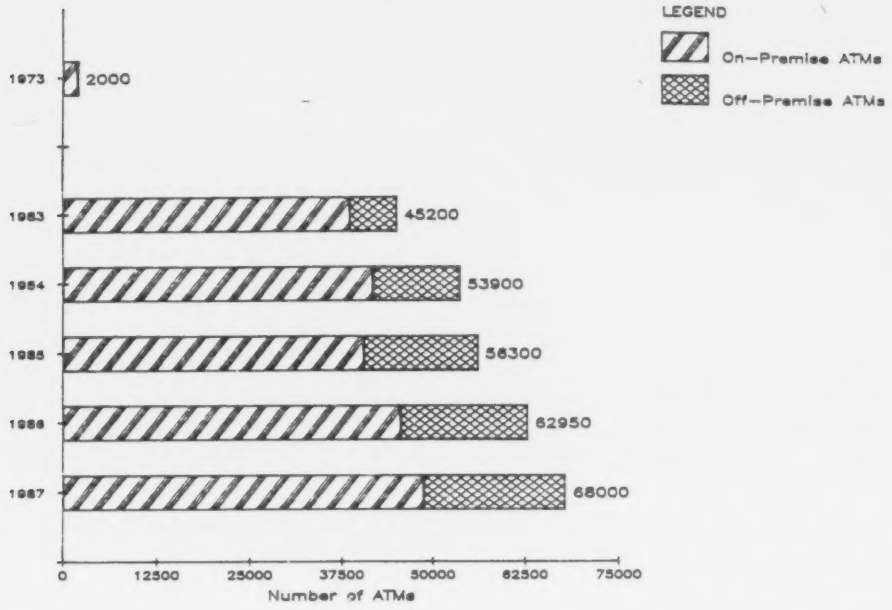
Description: This chart shows the average monthly transaction volume for POS debit per terminal (not per store) by retailer category, averaged over the year.

Sources of Data:

- Bank Network News
- Carmody & Company, Inc.
- Major POS debit terminal deployers (banks and retailers)
- Major shared EFT networks
- POS News

Copyright 1987 Electronic Funds Transfer Association

Operational ATMs:
Number of On-Premise and Off-Premise ATMs
1973 and 1983-1987

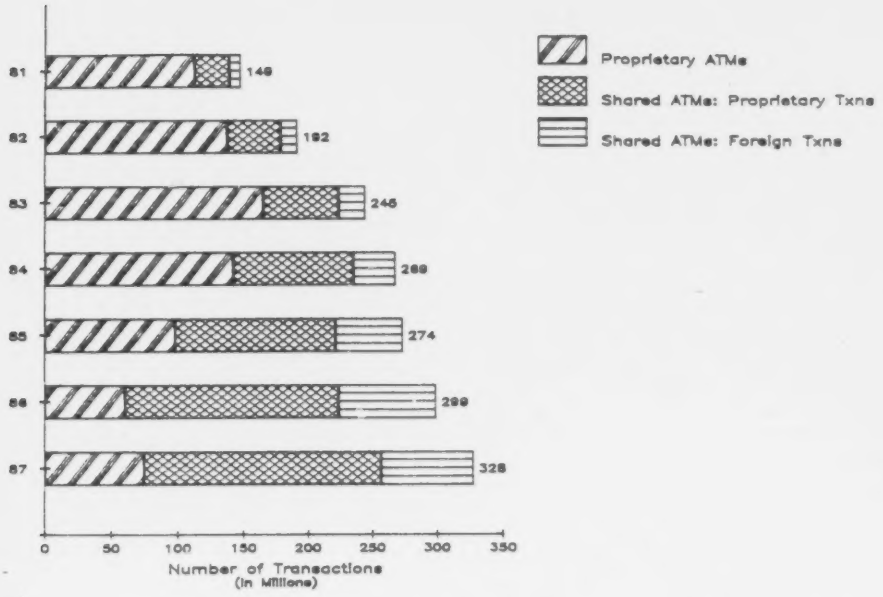


Description: This graph shows the number of ATMs in the U.S. that are on financial institution premises ("on-premise") and off financial institution premises ("off-premise"). On-premise ATMs are typically in vestibules, lobbies, through-the-wall or drive-up. Off-premise installations are in colleges/universities, shopping centers, supermarkets and other retail outlets, office building, hospitals and other locations.

Sources of Data:
- Bank Administration Institute
- Bank Network News
- Linda Fenner Zimmer

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reprinted without the written permission of the Electronic Funds Transfer Association.

ATM Transactions on Proprietary and Shared ATMs Per Month
(Showing the Number of Transactions on Shared ATMs That are Foreign Transactions)
1981–1987

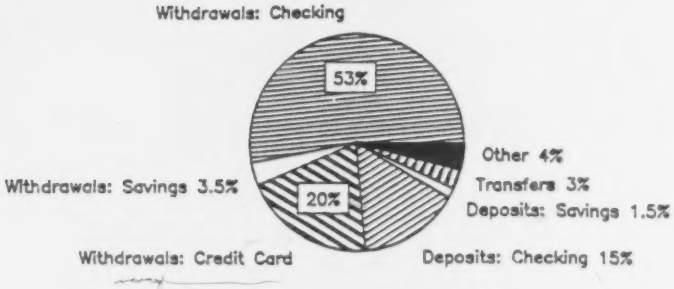


Description: This graph categorizes ATM transactions by proprietary (on-us) and foreign (interchange), showing: Proprietary transactions on proprietary ATMs (ATMs that are not in shared ATM networks); proprietary transactions on ATMs that are in shared networks; and foreign transactions on shared ATMs.

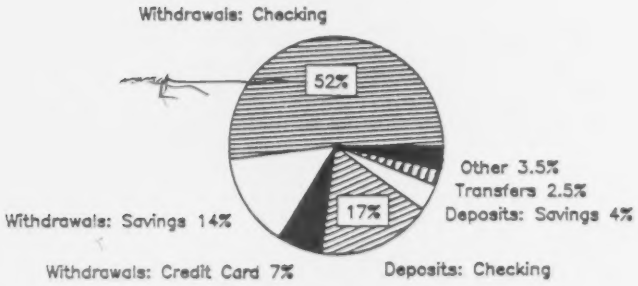
Sources of Data:
- Bank Administration Institute
- Bank Network News
- Linda Penner Zimmer

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reprinted without the written permission of the Electronic Funds Transfer Association.

ATM Transaction Distribution
1973, 1976, 1983, 1986
Average ATM Transaction Amount
1983 and 1986



All ATM Transactions: 1973



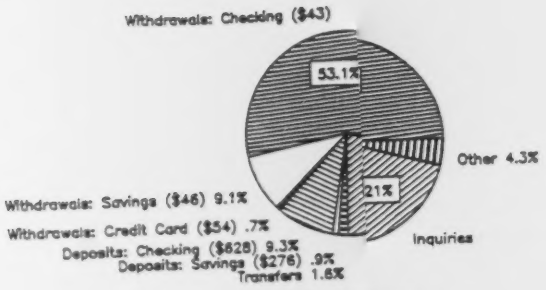
All ATM Transactions: 1976

Description: The pie graphs on this and the following pages show ATM transaction distribution by type of transaction: withdrawals (checking, savings, credit card), deposits (checking, savings), transfers, balance inquiries and other transactions. Data for the early 1970s do not show inquiries: most ATMs were off-line and could not provide this service. For 1983 and 1986, data are also broken out by proprietary and foreign (interchange) transactions, and average transaction amount is shown.

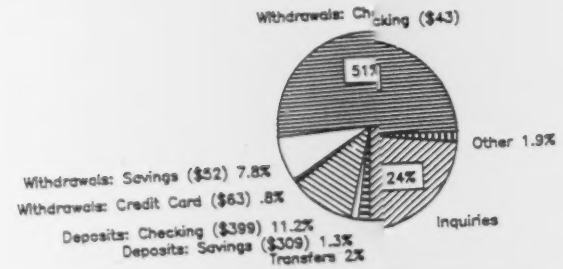
Sources of Data:
- Bank Administration Institute
- Linda Fenner Zimmer

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reprinted without the written permission of the Electronic Funds Transfer Association.

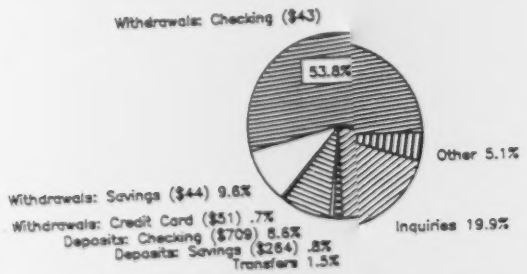
ATM Transaction Distribution And Average Transaction Amount 1988



All ATM Transactions



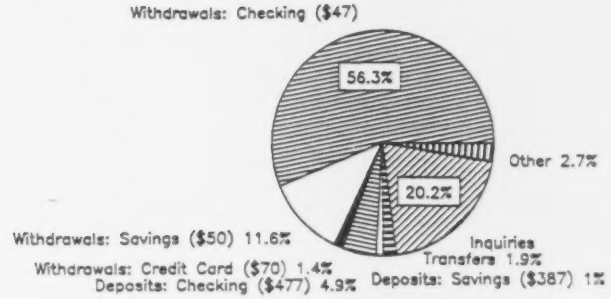
Proprietary ATM Transactions



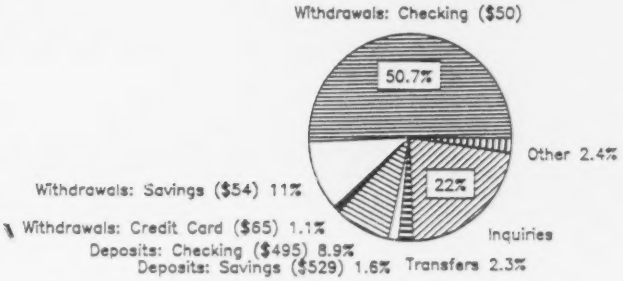
Foreign (Interchange) Transactions

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reproduced without the written permission of the Electronic Funds Transfer Association.

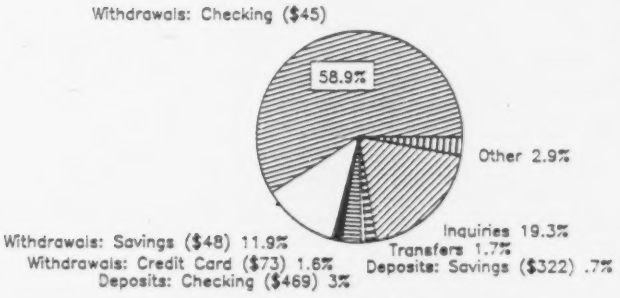
ATM Transaction Distribution
And
Average Transaction Amount
1986



All ATM Transactions



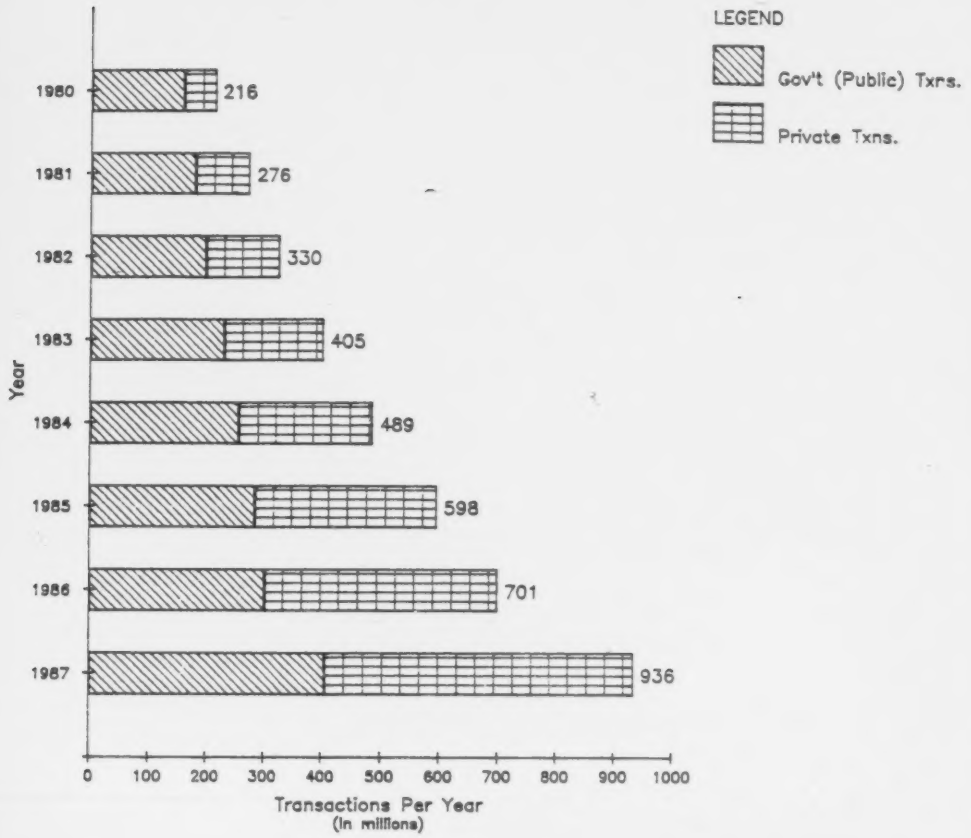
Proprietary ATM Transactions



Foreign (Interchange) Transactions

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reprinted without the written permission of the Electronic Funds Transfer Association.

Automated Clearing House Transaction Volume
Showing Government and Private Transaction Distribution
1980–1987



Description: This chart shows the number of transactions annually through the automated clearing house (ACH) system each year from 1980 through 1987. Inter-ACH transactions are not double-counted. As the chart shows, the percent of total transactions represented by government payments has decreased from 73.3% in 1980 to 43.5% in 1987.

Source of Data: National Automated Clearing House Assn.

Copyright 1988 Electronic Funds Transfer Association
For use by EFTA members only. This chart may not be reprinted without the written permission of the Electronic Funds Transfer Association.